SPECIAL OPERATING AGENCIES:
Taking Stock

Final Report

May 1994

This report, and the study on which it is based, was commissioned by the Auditor General of Canada and the Secretary of the Treasury Board through an exchange of letters in early 1993.

The study was directed by a Steering Group of public and private sector members. Under their direction, and with the co–operation of SOA heads and departmental officials, a joint project team assembled, organized and analyzed the data set out in Parts 1 and 2 of the report. With input from the joint project team, members of the Steering Group developed the main conclusions and recommendations set out in Part 3 of the report and reflected in the Summary of Conclusions.

The resulting report reflects a consensus view on the main conclusions to be drawn from the experience to date, on the way forward for the SOA and on the measures needed to move forward. These views are provided to the Secretary of Treasury Board and the Auditor General for their use in informing ministers and Parliament respectively.

Mr. L.D. Desautels, FCA
Auditor General of Canada
        and
Mr. R. Giroux
Secretary of the Treasury Board and Comptroller General of Canada

Gentlemen,

TAKING STOCK OF SPECIAL OPERATING AGENCIES:
SUMMARY OF CONCLUSIONS

1   You asked that we take stock of the Special Operating Agencies initiative. We are pleased to
summarize our main conclusions and recommendations.

Introduction

2   Economic and political forces are causing the Government of Canada to change the way it works.
Continuing deficits and mounting debt pose hard choices about the services the government should
provide, about how to manage the various organizational structures that have been created or inherited,
and about how to improve service and do more with less. The Special Operating Agency initiative is a
part of this broad agenda for reform.

3   SOAs may be granted certain freedoms from government–wide rules in return for undertaking to
achieve specified results. They are located on a continuum that stretches from traditional government
departments through Crown corporations to privatized entities. The essential elements of SOAs —
increased authority, development of strategic and business plans, responsibility for results, and disclosure
of performance — have been recognized for many years in Canadian administrative reform. Although
difficult to implement, they represent good management practices that are as applicable to the public
service at large as to the organizations selected to be SOAs.

4   On 15 December 1989, the President of the Treasury Board announced that the government was
introducing special operating agencies as pilot projects. By the end of 1993, fifteen SOAs had been
approved, employing about three percent of public servants. Their activities vary: five provide services
primarily to other government departments; two provide specialist services to the departments in which
they are situated; and eight serve the public on a limited basis. Also, their manner of operation differs:
some are optional — they provide goods or services to the government in competition with other
suppliers — while others are mandatory; some depend on parliamentary appropriations while others are
self–sustaining; and two have separate employer status, although most do not.

5   The government has learned a great deal from operating these SOAs and from this stocktaking
study. A fundamental issue running through the experience that must be addressed is the relationship
between SOAs and ministers of the Crown. For practical purposes, the Steering Group has assumed that
SOAs will continue to operate within the framework of traditional ministerial accountability. However,
the additional freedoms granted SOAs will create tensions in the system. Support by ministers will be
essential if SOAs are to work.

Conclusions

6   The Steering Group has concluded that, for certain government activities, SOAs should be able to provide better service at lower cost, and should therefore be continued if Treasury Board ministers, ministers and deputy ministers of departments in which SOAs are situated, and agency heads:

- provide clearer focus and direction for the SOA initiative as a whole;

- build greater acceptance and support for the SOA concept among stakeholders — public servants, unions, suppliers and competitors, the general public and parliamentarians;

- improve the criteria for determining which government activities should be converted into SOAs, and which SOAs, if any, should be moved into an alternative structure;

- set clearer, more concrete performance goals and improvement priorities for SOAs and include them in agency charters with appropriate permanence, establish more clearly the respective responsibilities of SOA heads and deputy ministers under the umbrella of ministers and match these responsibilities with appropriate authority and discretion, and monitor agency performance with respect to the goals and priorities established;

- establish a framework for public reporting using existing departmental accountability reports (Part IIIs of the Estimates) with appropriate safeguards to deal with confidentiality;

- develop and adhere to clear guidelines for SOAs that compete to supply government departments and that compete for markets in the private sector; and

- provide for subsequent stocktaking of the SOA initiative to assess progress and make appropriate adjustments as may be required.

7   Government activities for which SOAs would seem best suited are those whose objectives and outputs can be reasonably measured, that do not require significant ongoing ministerial involvement and, although this is quite subjective, that operate in a relatively stable policy framework. While not a prerequisite, another useful criterion might be revenue dependence — activities that are self-financing on the basis of their outputs.
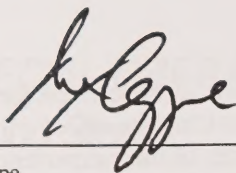
A Final Word from the Steering Group

8   Hard data to support our conclusions have been difficult to come by and somewhat contradictory (see detailed report), partly because of unclear objectives for individual SOAs, partly because SOAs have not been required to develop the data, and partly because of their limited life span. We recognize that our conclusions represent judgments based on interpretation of available facts, supported by reasoning derived from the experience of other jurisdictions and the private sector.
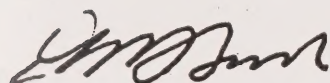
9   We hope that the results of our work will be useful to Treasury Board ministers and their advisors in deciding the future of special operating agencies.
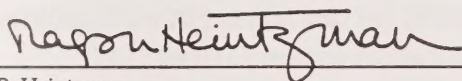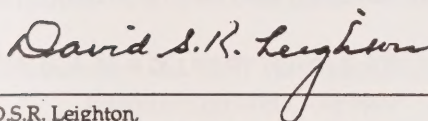
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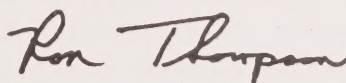
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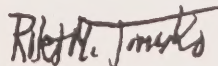
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Acknowledgements

SPECIAL OPERATING AGENCIES:
Taking Stock

DETAILED REPORT

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Part 3
The Way Forward – Applying Lessons Learned

Part 1
Context and Introduction

CONTEXT

Pressures for Change

Pressures are economic, and political

1.1   Economic and political forces are pressing the Canadian government, like many others, to change the way it works.

1.2   Economic pressures are most visible. Continuing deficits and mounting debt constrain the government's ability to act. Deficits and debt pose hard choices about what services government should provide, how much government the economy can afford, and how the costs should be split. Continuing deficits – despite sustained efforts to end them – cast doubts on the competence of governments to manage the structures they have created or inherited, and put them under pressure to do more with less.

1.3   Less easy to count, perhaps, are the signs of discontent with the kinds of services that existing government structures were designed to, and do, produce. Citizens react negatively against standardized services, offered regardless of need and tailored to the convenience of providers and others. And they demand more say in trade–offs and decisions that affect them.

> *Canadians perceive ... a public service that is too hierarchical and inward looking; and a general reluctance to share decision making with those outside government who will be affected by what is decided.*

Solutions are not clearly accepted

1.4   There appears to be little consensus on how much government should change the way it works, or how quickly. Nor is there agreement about how to go about it.

1.5   Advocates of market solutions propose that government should cease to provide any service that the private sector could provide and that users (or a significant proportion of them) could pay for. They reason that private businesses are inherently more efficient and more responsive, and that with additional business they could create jobs in the private sector.

Economic and political forces press governments to introduce more businesslike administration ... a task as political as it is administrative.

1.6   Others disagree. They argue that market forces respond incompletely or insufficiently to public policy or social needs; that market solutions eliminate jobs and exact most of the costs of restructuring government from its employees; and that they divide society more sharply into haves and have–nots. They also point to past instances where private businesses have abused their relationships with governments.

More businesslike public administration offers middle ground

1.7   Caught between ideological extremes, governments seek the "hard middle ground": to make government administration more businesslike. Typically, they import management approaches from the private sector and give

greater autonomy to the managers of operating units. Embedding managerial autonomy and discretion in a democratic system is a task as political as it is administrative:

> *Moving decision making to the "front" is, by definition, a transfer of power. Management is a policy issue. ...The policy decision is to find and maintain the balance of efficiency, effectiveness and other values ... (Since) management change can affect the costs and benefits of policy for different members of society, it directly affects substantive policy.*
>
> Organization for Economic Cooperation and Development

Governments and businesses seek to introduce more autonomous units ... but it is not easy to do so.

Similar Arrangements Elsewhere

1.8   The SOA is based on the same theoretical models as organizational forms being adopted by other governments and large corporations. The models are more contractual than hierarchical; provide greater autonomy to individual units of the whole; and rely more on market mechanisms than central decisions to allocate resources.

1.9   The SOA adopts the underlying models more cautiously than most other versions. In Canada it has been used in a limited range of applications, mainly on the margins of government and individual departments.

1.10   By contrast, some large businesses and governments have used the model of quasi–autonomous units more intensively and on a more ambitious scale. Some use such units as their basic organizational structure for all or most operations. Others use autonomous units more selectively, as:

- **internal cross–connectors,** creating organizations (temporary or permanent) deliberately to break down internal barriers and bridge gaps between established divisions, bringing together staff involved in meeting the needs of particular markets or customer groups; and

- **external cross–connectors and joint ventures,** creating organizations (temporary or permanent) through which normally competitive entities can co–operate toward a common aim that both need but that neither can afford to do, or do as well, separately.

Other governments

Among governments:

- **Sweden** has long been organized along the lines of a very small central government (0.2 percent of all public servants) with relatively autonomous boards and agencies administering most services.

- **New Zealand** has completely restructured its public service as autonomous units, so that separate departments and agencies provide policy advice and operational outputs.

- The **United Kingdom** has adopted the "Executive Agency" as its basic organizational model for service delivery, leaving policy advice and co–ordination in the core departments. More than 60 percent of UK public servants now work in agencies.

- In **Australia** business units, similar to SOAs, have evolved primarily within the departments that provide common services to its federal government.

Private sector

1.11   In the private sector, current ideas about businesslike management are changing as major corporations try to improve their performance. Many large, and once successful, corporations have recently sought to adopt "loose–tight" organizational forms used by some successful corporations, spinning off non–core work, and reorganizing the remainder.

We split up the big battleship into a flotilla of effectively run small ships under one admiralty.

1.12   A new business language – and a large consulting market – has emerged, featuring words like *"paradigm shift"*, *"empowerment"*, *"intrapreneuring"*, *"deconstructing"* or *"re–structuring"* the corporation. But fundamental attitudes toward power and patterns of control take longer to change than language:

Ninety–five percent of American managers today say the right thing. Five percent actually do it.

1.13   The business press has reported spectacular successes as a result of splitting up large organizations into smaller units. But reorganizations that ultimately succeed often – some say always – look like failures while they are in process. And many attempts to introduce autonomous units fail, or fail to produce results fast enough. *"Too little, too late"* is a common post–mortem verdict. Autonomous units are never easy to introduce, or to assess while in progress.

Past experience with similar models in Canada

1.14   **The models have been tried before.** The models on which the SOA is based are not completely new to Canada. The immediate precursor to the SOA, the Increased Ministerial Authority and Accountability (IMAA) initiative, sought to introduce a similar model at the departmental level. Between 1986 and 1991, Treasury Board staff reached IMAA agreements with 10 departments.

1.15   But the roots go back at least to the early 1960s. Thirty years ago the Glassco Royal Commission on Government Organization argued

for more businesslike management in government. It, too, argued for greater managerial discretion. It noted that the structure of control tended to weaken managers' sense of responsibility *"by divesting departments of the authority essential to the effective management of their own affairs."*

1.16   Glassco's 1960s catch–phrase "let the managers manage" was followed in the late 70s by that of the Lambert Commission: "make the managers manage". And most recently the theme of the current overall administrative reform initiative, **Public Service 2000,** has been characterized as: "make the managers good managers."

1.17   **With limited success.** Space does not permit full justice to the richness of experience gained over this period. A. W. Johnson, a former senior public servant, recently reviewed the history of federal administrative reform over the last thirty years. He noted strong similarities in the theoretical and rhetorical underpinnings of all of them, differentiating Public Service 2000 from previous initiatives in its (welcome) recognition of the role that values and culture play in determining behaviours and performance. And he asked why all these initiatives had failed to deliver as expected. Among the more important reasons, he suggested, were these:

- failure to connect administrative changes adequately to the parliamentary system;

- failure to recognize and deal adequately with tensions between collective and individual ministerial responsibility;

- failure to set and maintain clear goals for incremental change; and

- mounting scepticism by public servants who have been subjected to an "alphabet soup" of administrative reform initiatives.

INTRODUCTION TO THE SOA AND THE STUDY

The Special Operating Agency (SOA)

1.18   On December 15, 1989 the President of the Treasury Board announced the first five special operating agencies, saying that the government was introducing:

> *... an innovative concept of management in government called special operating agencies. These agencies are pilot projects to improve the delivery and cost efficiency of services offered by the government. They will operate within government in a businesslike manner with flexibility that is necessary to achieve agreed–upon bottom line results.*

What is the SOA?

1.19   The Treasury Board Secretariat described the SOA as

> *a new organizational model ... that operates under a tailor–made, written understanding .. (with its) .. parent department (which) .. provide(s) increased freedom from government wide .. rules in return for ... results.*

1.20   **The underlying models: contract, and choice**. Stripped to its essentials, the theoretical model on which the SOA is based is that of a contract. A contract expresses or implies three elements of the relationship between its parties:

- responsibility for achieving results;

- authority to do what is reasonably necessary to achieve results, within boundaries expressed in law or in the contract; and

- an obligation to provide feedback on how responsibilities have been discharged.

1.21   A second theory that underpins the SOA is that of choice, or market mechanisms. It holds that those closest to choices will, in the sum of their individual choices, allocate resources better than central directors or "comptrollers".

1.22   **Reflection of contract and choice in the SOA**. The SOA remains within government and as part of its host department. Although the underlying model being imported is that of a contract, the relationship between the parties to the SOA "contract" is closer than between independent contracting parties. Still within the host department, the SOA aims to modify the hierarchical "command and control" model for regulating and directing the behaviour and performance of public servants – even as the traditional model of the public service is changing under Public Service 2000 – by introducing what Treasury Board Secretariat describes as a unique "management contract" for each SOA. The report uses the term SOA agreement to denote the SOA management contract.

Stripped to essentials, the SOA is based on contract (rather than hierarchy) and choice (rather than central resource allocation).

1.23   The government uses two related documents to set up the SOA agreement. They are a **charter** (sometimes called the framework document), which Treasury Board staff refers to as the SOA's constitution; and a **business plan**. Together, these provide the basis for the relationship of the SOA with its host department, minister, and Parliament.

1.24   The mechanisms of choice are reflected in the funding arrangements for each SOA, and in the Treasury Board's common services policy. To varying degrees, these allow the users of SOA services to choose between the services of the SOA and these of other providers, in or out of government.

How many SOAs are there, and what do they do?

1.25 In December 1990 the government announced that it was committed to:

> *... extending the use of special operating agencies to as many organizations as possible, particularly the ones that are involved in providing routine services to the public and to departments.*

1.26 By the end of 1993, the government had approved the framework documents for 10 further special operating agencies in addition to the first 5 pilot projects. Of the 15 agencies listed in Appendix 2:

- 5 are common service agencies, providing services primarily to other units of the government;

- 2 provide specialist services for their host departments; and

- 8 are sub–departmental units serving limited sections of the public, and attracting limited public, ministerial or management attention.

The Study

1.27 Special operating agencies and their host departments, the Office of the Auditor General, the Treasury Board Secretariat, Consulting and Audit Canada, and the Canadian Centre for Management Development co–operated to complete the study.

Steering Group

1.28 A joint public and private sector Steering Group directed the study and the work of a joint project team drawn from staff of the Office of the Auditor General of Canada and Consulting and Audit Canada.

1.29 **Terms of reference.** The Steering Group's terms of reference were derived from an exchange of letters between the Auditor General of Canada and the Secretary of the Treasury Board. These letters are reproduced as Appendix 1. The specific terms of reference developed by the Steering Group were to:

> *... gather, organize and present pertinent data that will help officials and (in a later phase) Parliament to take stock of the progress of the SOA initiative to date, to identify ways in which it might be strengthened, and to gain a better understanding of its potential.*

> *It is intended that data gathered during this study would help all parties decide how to proceed in the future.*

In four years, the government approved arrangements for fifteen SOAs.

Study approach

1.30 The study team supported the deliberations of the Steering Group with information drawn from four main work elements:

- a program of interviews with managers in central agencies, SOAs and their host departments, and with union representatives;

- a detailed assessment of changes in a "laboratory group" of six special operating agencies and their host departments, and analysis of their framework documents. These agencies comprise the first five SOAs announced in December 1989, plus one other;

- a review of literature dealing with administrative reform in the Government of Canada, other jurisdictions and the private sector; and

- discussions of possible changes in course with managers and other stakeholders.

1.31 The study team gathered general information about performance of all special operating agencies through tape–recorded interviews with 18 past or present agency heads, often accompanied by agency managers; 13 deputy ministers (or assistant deputy ministers to

whom SOAs report – the report uses the term deputy minister to designate both) responsible for the agencies; and 7 functional representatives in host departments. These interviews, which followed a general structure, lasted on average 90 minutes. In addition, members of the study team met with representatives from seven public service unions.

1.32   The managers of the six laboratory group agencies helped the study drill down deeper into the performance of the SOA. Each completed a detailed profile of changes that had taken place since becoming an SOA, augmenting interview information with supporting data and documents, and with management discussion and analysis of the data. Five of the SOA management teams rated their progress to date against their expectations. In two cases, study team members observed first–hand the agency management discussions and rating process, and the analysis and learning that took place in it.

1.33   The "laboratory group" of SOAs and their host departments who shared their experiences and lessons learned comprised:

- Canada Communication Group, and

- Consulting And Audit Canada, both of Department of Supply and Services (now Public Works and Government Services Canada)

- Passport Office, Department of Foreign Affairs (now Foreign Affairs and International Trade)

- Training and Development Canada, Public Service Commission

- Government Telecommunications Agency, Department of Communications (now incorporated into Government Telecommunications and Informatics Services, Public Works and Government Services Canada)

- CORCAN, Correctional Service Canada

INTRODUCTION TO INTERIM OBSERVATIONS

2.1   Framework for observations. The objectives of any initiative affect the framework for reviewing it. Different views abound about the "real" reasons for introducing the SOA in 1989. A deputy minister sums it up:

> *The problem that we've had is ... confusion as to an over–riding objective for SOAs. There are essentially three (legitimate) perspectives, but the fact that no one has been selective makes it ... difficult to think of the ... SOAs in total. One ... is of a series of laboratories ... (of) ... public sector reform. Another ... is that this may mean an exploration that will eventually – if not by intent, by circumstances, lead to privatization. The third is the notion that the SOA should constitute the normal delivery structure for government operations. The basic goal of SOAs has not been established.*

**2.2   **The Steering Group decided that the study should focus on what to do with the SOA model now, and how the government might use the lessons learned so far to support an agenda for administrative reform: better government at lower cost. The study report looks at the potential and performance of the SOA in three ways:

Study observations provide indicators about a work in process.

- **The SOA as a delivery vehicle.** The SOA can be regarded as a prototype for significant parts of a public service that "works better and costs less".

- **The SOA as a transitional vehicle.** The SOA can be seen as an interim step toward distancing ministers from operations whose credibility or financing demands freedom from the appearance of undue political direction. It can also be viewed as a step in divesting government of operations that have outlived their public purpose.

- **The SOA as a vehicle for learning.** The SOA can be seen as a "test bed" for trying out new approaches to government administration on a limited scale, before extending them more broadly across government.

2.3   Nature of interim observations. As an evolving organizational form, the SOA has not yet been thoroughly tested or proven in any of these three roles. The observations set out in this part of the report present the best available information about what is happening. As observations on a work in progress, they present indicators or clues. Using the indicators requires interpretation and judgment, provided in the Part 3 of this report.

THE SOA AS A DELIVERY VEHICLE: KEY ASPECTS OF RESULTS

Introduction and Overview

2.4   The first way in which the report looks at the SOA is as a delivery vehicle for significant parts of a public service that would (in the words of the US National Performance Review – the Gore Report) "work better and cost less". From this perspective, the report presents information about the early results obtained by special operating agencies and about the workings of SOA agreements.

Aspects of performance considered

2.5   The report presents information about SOA performance under six headings. Each of these is reflected in the government's agenda for good government. They are:

- Service (2.19 to 2.27)

- Achievement of Planned Public Purposes (2.28 to 2.38)

- Financial Performance and Productivity (2.39 to 2.49)

- Working Environment (2.50 to 2.73)

- Direction and Focus (2.74 to 2.110)

- Monitoring Performance (2.111 to 2.131)

Overview of observations

2.6   Overall, few of the agency heads or deputy ministers who have participated directly in an SOA would revert to traditional arrangements.

2.7   At this stage of implementation, the best available data indicate that SOA agreements and rhetoric have helped their managers to change performance expectations within and about their agencies, and to develop internal structures that better support their operations. For example, the six agencies that provided detailed self–assessments for the study reported significant improvements (more than 4 points on a 10–point scale) in:

- the working environment, staff involvement and values and culture within their agencies;

- internal structures and processes; and

- their management of other resources and inputs, especially information.

SOA agreements and rhetoric help change expectations and internal structures ... but information about performance is too weak to be sure about the pay–off.

2.8   **Service.** To date, two of these six agencies report significant service improvements, and one reports appreciable improvement. The others indicate an understanding of what needs to be done to improve service, and are taking steps to bring about change. It was clear that improving service is difficult.

2.9   **Achievement of public purposes.** Two of these six agencies report better achievement of their public purpose and one reports maintaining its achievement level. Three common service agencies are not in a position to assess their achievement of public purposes.

2.10   **Financial Performance and Productivity.** Data are soft. To date, one of these six agencies has shown significantly increased productivity. In the others, available indicators suggest flat or declining productivity with significant opportunities for improvement as SOA structures and processes take hold.

2.11   Costs have generally risen in these six agencies. Most of these costs have been recovered from other departments or the public.

2.12   **Working environment.** Agency heads generally report significantly improved working

environments in their agencies, with a need to monitor and manage more closely the risks inherent in changing the values and culture of their organizations. Some contrary indicators indicate a need for firmer information about these changes.

2.13   Direction and focus. Agency heads and deputy ministers report that SOA agreements gave better focus and direction within agencies. This is overshadowed by varying views on the relative roles and responsibilities of the deputy minister (as "governing authority") and the agency head in the more autonomous configuration of the SOA relationship. It is also overshadowed by concerns that the special operating agency agreement is not sufficiently permanent to change behaviours in the long term, especially when deputy ministers or agency heads change.

2.14   Monitoring performance. Information has generally improved where demanded for external purposes, but slowly. Demand for information about performance against SOA agreements was stronger, and the information flow more complete, where deputy ministers had strong advisory boards to help them keep the SOA in focus and its performance under sustained, supportive but demanding oversight. In other cases, demand for information remained weak so long as SOAs covered their costs, and information about important aspects of performance – particularly achievement of public purposes – remained weak. Without such information, deputy ministers were poorly placed to assess management trade offs.

Data sufficiency

**2.15   **This section of the report is based largely on SOA managers' assessments of their performance, and their interpretation and analysis of available indicators with which they supported their assessments. The study team reviewed the plausibility of these indicators and inquired into any apparent inconsistencies, and considers that managers' interpretations and assessments were within the range of reasonable interpretation of available data. The study team did not, however, perform an in–depth audit of underlying indicators.

**2.16   **The supporting indicators were soft in some areas, however, and there were some contrary indicators. Specific limitations in supporting data and contrary indicators are discussed below under each sub–section.

SOAs pay more attention to users ...

Interpreting and using data provided

**2.17   **The information set out in this part of the study report provides a composite picture of SOA performance, using the best available data. Its purpose is to support decisions about the future direction of the SOA.

**2.18   **It does not support evaluation of any specific agency or agency head. First, such evaluation is the job of the deputy responsible. And second, such evaluation requires looking at specific indicators or aspects of performance in context, and with an understanding of how one aspect of performance affects another. For example, one agency head, commenting on a worsening productivity trend, reported that the trend had been reversed in the current year, but at the cost of a significant deterioration in the working environment.

Service

Overall user satisfaction

**2.19   **All but one SOA report significantly greater focus on user needs. They refer to a range of supporting activities to give users greater say in how the SOA does business and to focus staff attention on their needs.

**2.20   **Of the six laboratory group agencies, managers of two consider that these activities have paid off in significantly improved service, and one reports moderate improvement as a result of such internal actions as:

- changes in the language of management–staff discussion (all agencies) linked to the change in basis of funding (three agencies);

- total quality management initiatives (two common service agencies);

- customer focus groups (one common service agency);

- appointment of account managers to co–ordinate services to larger customers (three common service agencies);

- appointment of user representatives to the advisory board of the agency (three agencies).

2.21   The supporting indicators that those activities are paying off in better service are weak to moderately strong. Some contrary sub–indicators, discussed below, suggest the importance of strengthening management's data.

2.22   All rely on day–to–day feedback from users and on their knowledge of the activity within their agencies. Three of four common service agencies take comfort from stable or increased revenue, despite their services having become optional. (Experience elsewhere, however, suggests that it may take time for users to exercise their choice.)

2.23   Five of the laboratory group agencies have used surveys to gauge overall satisfaction and to find out what is important to the users of their services. In two cases, surveys allowed the agency to see whether its activities were paying off in higher user satisfaction: the Passport Office conducted a survey in successive years in one region; and Canada Communication Group structured its survey to assess whether its services were seen as improving or not. In the other agencies, managers have established a baseline against which to establish trends in the future.

2.24   At the level of sub–indicators that typically contribute to overall user satisfaction – price, quality, and turnaround time – the data are mixed, suggesting the need to follow up on baseline surveys to confirm management perceptions.

Attention to financial targets tends to diminish the importance of public purposes, particularly those that are unclear.

Prices

2.25   One of the six laboratory group agencies (GTA) has reduced prices to individual users, as well as to the government as a whole (see 2.32). Prices for the services of three agencies are stable or believed to have increased by small amounts, although two of these three agencies have sustained losses (of between 2 and 10 percent of their costs) that can be regarded as costs not recovered from customers. The remaining two agencies have increased their prices by more than 20 percent to better align them with costs.

Quality of service

2.26   All six agencies have changed their product specifications or introduced new products to some extent. Product or service innovations may represent improved quality to the user, and better data about customer satisfaction would allow SOAs to confirm whether this is the case. For the one SOA that involved users in product development the presumption is stronger.

Speed of service

2.27   One laboratory group agency tracks the time to deliver its products to customers. Its cycle time deteriorated significantly (more than 50 percent) between 1990–91 and 1991–92. Others recognized the importance of speed of service, but presented no data.

Achievement of Planned Public Purposes

Introduction and overview

2.28   The SOA, as a part of government, serves public purposes. A key – perhaps <u>the</u> key – aspect

of SOA performance is the extent to which it achieves public purposes better.

2.29 At this early stage, the data are insufficiently clear to draw any hard conclusions. Two laboratory group agencies, for which the set–up process made public purposes clear enough to measure, report modest gains. For common service agencies, the level of attention given to financial targets tends to diminish the importance of their public purpose, particularly given that their public purpose is often unclear.

Common service agencies

2.30 **Introduction.** Government typically created common service agencies to achieve economies of scale and expertise. The public purpose is to make the best use, at the lowest cost to the whole government, of services that managers use but in which they cannot themselves become expert. The central agencies responsible for collective management of the public service use common service agencies to promote consistent practices across government, and to obtain technical advice and information. Consistency may be important so that one part of government can share information or work with another. Or consistency may promote and protect public service values such as equity, prudence and probity.

2.31 As part of the general move away from "command and control", the government made many common services optional. Common service agencies and central agencies need new tactics to achieve their goals.

2.32 **Results.** Of the four common service agencies, GTA's public purposes were made sufficiently clear that it can partially gauge how well it is contributing to them. It existed to:

- achieve economies of scale and expertise in the purchase of telecommunications services; and

- provide technical policy advice on how to share data among different government systems.

2.33 With respect to economies of scale, GTA estimates annually the amount it saves the government by negotiating bulk rates with telecommunications carriers. That amount is approximately $90 million per year, approximately double the savings it achieved in the late 1980s.

2.34 With respect to the second public purpose, GTA management believes that its work on electronic gateways has helped the responsible policy centre to set a standard that enables government officials with different data processing systems to inter–operate.

2.35 The other three common service agencies do not monitor the effect of their activities on government costs or achievement of public purposes. Two of them estimate their share of the whole government "market" for their particular services. They do not, however, compare prices to estimate the economies of scale achieved by those departments that used their services. Nor do they estimate or gauge their contribution to other public purposes.

2.36 Further, policy advice is treated as an overhead rather than an agency output for which the central agency pays. The result is that common service agencies subsidize the cost of collective administrative policy to an undisclosed degree, and depress the recorded productivity of SOAs. Even where the policy centre pays, it tends to be on a flat fee or subsidy basis. One agency received the same amount for at least four years running, for example.

Other agencies

2.37 CORCAN, whose public purpose is to provide training that will help imprisoned offenders find jobs on release, provided 3 percent more offender–training hours in its first year as an SOA than previously. This is below the target it set for itself, but still better than before.

2.38 The Passport Office management reports that it maintained the level of security of the Canadian passport, based on management analysis of known or suspected attempts to obtain passports by fraudulent means.

Significant cost and productivity improvement opportunities are available for exploitation: realizing them would demonstrate the value of the SOA approach.

FINANCIAL PERFORMANCE AND PRODUCTIVITY

Introduction

2.39   Exhibit 2.39 presents summarized financial data for the laboratory group of agencies and the text below looks at the following aspects of the financial performance and productivity of the SOA:

- matching revenues and costs;

- reducing unit costs and improving productivity; and

- affect on government costs and operational

This section relates specifically to the six laboratory group agencies and, more generally to SOAs which operate on revolving funds. While the laboratory group agencies represent 62% of personnel and 78% of costs involved in the fifteen current SOAs, those six are not necessarily typical of the other nine agencies. Further, the revolving fund attribute and the aspects of optionality and competition found in the four common service SOAs of the laboratory group are not necessary features of future SOA configurations.

Matching revenues and costs

2.40   **The break even "bottom line".** Like all units of government, special operating agencies must manage their costs within the limits of available revenue, whether provided by appropriation or by the sales of goods and services. The latter is more difficult, since sales revenue and user fees are less predictable and more difficult to manage than fixed or lump sum appropriations. All six of the SOAs in the laboratory group derive the greater part of their funding from sales or user fees. They each have revolving funds and are expected to finance their operations within the overall limits of the fund. They, their host departments and central agencies have tended to view the ability to break–even as the most important indicator of their performance. Provided the agencies did not record consistent losses, or large surpluses, their financial and productivity performance received limited attention.

2.41   The first six agencies have managed within the limits of their revolving funds: only GTA required an increase in its "credit line" to permit switching from advance billing based on estimates to billing in arrears in response to the preferences of clients in the first three years of operation. They recorded ten surpluses and six losses over the three–year period between 1990–91 and 1992–93, with only one agency recording consistent losses. That agency, Consulting and Audit Canada, reports that it has vigorously reduced its costs to bring them better into line with its revenues.

2.42   **Focus on the revenue side.** Agency heads can balance revenues and costs by managing costs, revenues or both. They report that both approaches are difficult and likely costly in a public service environment. The major difficulties that they cite in managing costs centre around the implications of personnel policies, particularly the Workforce Adjustment Directive. Major difficulties in managing revenues centre around the sensitivities of private and public sector competitors. The laboratory group agencies have tended to pay rather more attention to increasing revenues than to reducing costs. Interviews with the heads of other agencies suggest a similar pattern beyond the laboratory group.

Exhibit 2.39: Summary Financial Data, Laboratory Group Agencies

AGENCY	YEAR	FINANCIAL PERFORMANCE (in thousands of dollars)					STAFF
		Agency Operating Costs	Cost of Procured Services	Fees or Service Revenue	Lump sum Appropriations	Surplus (Deficit)	Number of Employees
Passport Office	1990/91	32,731 [1]		32,150 [1]		(581)	435 [2]
	1992/93	37,968 [1]		44,058 [1]		6,090	501
	% Change	*+16%*		*+37%*			*+15%*
	Notes & Sources: (1) Financial data from (unaudited) financial statements in Public Accounts Vol II Part II. (2) Passport Office Annual Report 1990–91; (3) Annual Report 1992–93						
Consulting and Audit Canada	1990/91	30,732 [1]	22,363 [1]	52,210 [1]		(885)	**383** [2]
	1992/93	34,742 [3]	32,116 [3]	61,986 [3]		(4,873)	**443** [2]
	% Change	*+13%*	*+44%*	*+19%*			*+16%* [2]
	Notes & Sources: (1)Annual Report 1990–91, unaudited. (2) Information from CAC finance group. (3) Audited financial statements, Public Accounts, Vol II, Part II.						
Canada Communication Group	1990/91	313,284 [1]		311,583 [3]	8,550 [3]	6,849.00	1,438 [3,4]
	1992/93	394,632 [5]		388,636 [5]	12,510 [5]	6,515	1,512 [3,4]
	% change	*+25.9%*		*+24.7%*	*+46.3%*		*+5.1%*
	Notes and Sources: (1)Agency data, includes extraordinary item approximately $3,796; (2) data not available; (3) Agency supplied data and Financial Management reports; (4)Profile; (5) Financial Statements in Public Accounts Vol II, Part II (opinion reserved on operating statement)						
Government Telecommun–icati ons Agency	1990/91	15,134 [1,2]	198,127 [1]	213,980 [1]		749	216 [3]
	1992/93	25,047 [4,2]	179,516 [4]	205,331 [4]		768 [4]	244 [3]
	% change	*+65.5%*	*–9.4%*	*–4.1%*			*+13.0%*
	Notes and Sources: (1)**1993–94** Annual Report 5 year review. (2) includes architecture costs of $265k in 1990–91 and $1,564k (net) in 1992–93, see paragraph 2.63; (3) Agency Profile; (4) Unaudited Financial Statements in Vol II, Part II of Public Accounts, which differ slightly from the Annual Report for that year (net $125k)						
Training and Development Canada	1990/91	13,459 [1]		9,622 [1]	2,885 [1,2]	(952) [1,2]	158 [1]
	1992/93	15,021 [2]		12,742 [2]	2,885 [2]	606 [2]	145 [3]
	% change	*+11.6%*		*+32.4%*	*0.0%*		*–8.2%*
	Notes and sources: (1) Agency data reformulating unaudited financial statements reported in Public Accounts Vol II, Part II to reflect transfer of discretionary language training costs and revenues out of TDC operations; (2) Unaudited financial statements reported in Public Accounts, Vol II, Part II; (3) Agency Profile.						
Corcan	1990/91	43,015 [1]		24,993	14,022 [4,1]	(4,000) [1]	362 [2]
	1992/93	46,985 [3]		30,610 [3]	18,142 [4]	1,767 [3]	362 [2]
	% change	*+9%*		*+22.5%*	*+29.4%* [5]		*0.0%*
	Notes and Sources: (1) Corcan staff estimates based on recasting pre SOA data, and including imputed charges of $4M for depreciation and interest. (2) Agency profile; (3) unaudited financial statements in Public Accounts, Vol II Part II; (4) Training and Correctional fee to compensate for inefficiencies inherent in working in prison conditions (5) Increase approximately equal to amount of depreciation and interest on revolving fund.						

2.43   Five reasons appear to underlie the focus on the revenue side of the balance. First, is the lack of clear emphasis on cost reduction and productivity improvement: central agencies and host departments seemed satisfied with agencies breaking even. Second, there is a belief that by consolidating government expenditures in certain areas and increasing the market share of the appropriate common service agency, there is a greater opportunity to leverage the bulk purchasing power of the government as has been the mandate and strategy pursued by GTA. Third, the "businesslike manner" the SOA was intended to promote is often translated into "entrepreneurialism", which, in turn, is taken to mean expansion. Similar patterns have been reported in other jurisdictions, particularly in the response of deregulated utilities facing competition for the first time. A fourth reason that agency heads chose to increase revenues rather than to reduce costs is a desire to protect the jobs of employees, especially in the face of potentially declining demand in their core markets. In part this preference reflects the mutual obligation of managers to employees, and the managers' responsibility for the working environment (see 2.61 to 2.65). In part it responds to the costs of cutting back imposed by the Workforce Adjustment Directive. This Directive stipulates that surplus staff must be given a reasonable job offer before they can be let go, thus making it difficult and costly to make necessary adjustments to the numbers and type of staff in the short term. Fifth, agencies have found that demand for their services fluctuates during the year and, in at least one case (Canada Communication Group), from one year to another. This makes it difficult to maintain effective utilization of capacity. Faced with fluctuating demand, providing new services, or providing services to different markets provides one route to maintaining a high utilization of capacity.

2.44   Increasing agency revenues. Each of the six agencies in the laboratory group has sought or is planning, to protect existing revenues by improving service and to generate new revenues by diversifying its products, or selling them in different markets The four common service agencies in the laboratory group compete not only with private sector suppliers but also with functional groups in client departments who may provide similar services at prices that look cheaper but that do not cover their full cost. Two of them (Government Telecommunications Agency and Canada Communication Group) faced removal of their previous monopoly for important segments of their business. Common service agencies have all focussed on improving the quality and relevance of their services, as discussed above (2.19 to 2.27) as their main strategy for maintaining revenues. Some agencies have considered expanding into international markets, with their export and associated job–creation potential. Laboratory group agencies have found that expansion in this area often requires considerable upfront expenditure. Expansion into provincial markets has been hampered by jurisdictional considerations and by political sensitivity to private sector opposition to competition from government organizations. The Passport Office has increased the price it charges for passports to cover increased costs and finance investments in technology. It also seeks to introduce related products and services.

2.45   **Reducing agency costs.** Operating costs increased in all the laboratory group of agencies A number of factors contributed to the increased agency costs and staffing levels shown in Exhibit 2.39. In addition to the costs associated with serving expanded markets, SOAs, to improve their service delivery, have invested in systems, infrastructure, marketing, product development and staff training or in functions such as personnel, finance, systems support and accommodation that were previously paid for by their host department. Agency heads believe that expenditure increases attributable to the transfer of functions may be partly offset by corresponding savings to the host department. As noted earlier, all except one of the laboratory group of agencies have been able to generate sufficient revenue to cover these additional expenses.

Reducing unit costs and improving productivity.

2.46   In general, the laboratory group of SOAs have yet to focus on productivity to the same extent as they have on client needs, employee relations, product refinement and matching costs

and revenues. Available, very limited, indicators (Exhibit 2.46) suggest that one agency, Training and Development Canada, has improved productivity by more than 20%. Improvements of this order or greater have been demonstrated by the more successful of SOA counterparts in other jurisdictions. For example, the Australian Department of Administrative Services and the New Zealand Employment Service report such productivity improvements, which helped garner essential political support for reforms that disturbed the status quo.

Exhibit 2.46: Productivity Indicators, Laboratory Group Agencies

Agency & Nature of Indicator(s) Note 1	Year	Performance (taking 1990–91 performance as 100, unless otherwise stated)		
Passport Office: Number of passports issued per person employed (cost per passport)	1989–90	95	($25.6)	
	1990–91	100	($25.8)	
	1991–92	94	($27.0)	
	1992–93	79	($30.6)	
	1993–94 (projected)	90	($32.2)	
Consulting & Audit Canada: Utilization rate of professional staff (% of their time directly charged to work done for paying clients)	1990–91	100.00		
	1991–92	94		
	1992–93	79.00		
	1993–94 (projected)	92.00		
Canada Communications Group Revenue per employee	1989–90	94.00		
	1990–91	100.00		
	1991–92	94.00		
	1992–93	119.00		
	1993–94 (projected)	82.00		
Government Telecommunications Agency (GTA) Government–wide savings per $1 of GTA costs (excluding net GTA costs related to architecture program on behalf of Treasury Board Secretariat)	1990–91	100	($5.31)	
	1991–92	99	($5.29)	
	1992–93	67	($3.55)	Note 2
	1993–94 (projected)	96	($5.12)	
Training and Development Canada (TDC) Participant course–days taught per employee	1990–91	100.00		
	1991–92	128.00		
	1992–93	121.00		
	1993–94 (projected)	121.00		
Corcan Inmate training hours per employee	1991–92	100 (1991–92 used as base 100 because of later conversion date)		
	1992–93	103.00		
	1993–94 (projected)	135.00		

NOTES

1. Caution: These data provide indicators. not definitive measures. We underline the caution stated at paragraphs 2.18 and 2.47 in the text, particularly that because the indicators vary from agency to agency, they do not provide a valid basis for comparison.

2. GTA notes that apparent decline resulted from investment in business system expenditures coupled with regulatory tariff changes affecting savings.

2.47 In the other laboratory group agencies, available indicators suggest that productivity is flat or declining, although Corcan's projections, if realised, command respect. Care should be taken in interpreting the data in Exhibit 2.46 as these indicators are relatively crude. It is difficult to measure the productivity of knowledge–workers, or of organizations that produce heterogeneous outputs. Indicators such as utilization and revenue per employee do not purport to "measure" productivity precisely but can alert management to the need to investigate, to find out what is happening and why. Because each agency's indicator is different and unique to its circumstances, valid comparisons cannot be drawn on the relative performance of agencies. A full appreciation of the significance of indicators requires greater inquiry, analysis and understanding than they had generally received in the laboratory group agencies — due largely to the focus on matching revenues and costs discussed above. As suggested at 2.111 to 2.113, government financial and personnel data systems are in the process of being transformed to provide better "business information" for agencies essential to developing and using performance indicators Equally, informed monitoring of the management choices that are suggested by these performance indicators would have required more informed and demanding (but supportive) governance of individual agency performance than host departments typically provided.

2.48 All of the laboratory group of SOAs claim that SOA status, and what came with it, has made them more aware of the costs of their activities. It is apparent that more needs to be done to track efficiency and productivity and to use such information to improve performance.

Effect on government costs and operations

2.49 Among the most important reasons for introducing SOAs was their potential for improving the cost–effectiveness of government. The operating and capital costs of each SOA form a part of the total government expenditures. Common service agencies exist to reduce government costs through the prices they charge, or secure. As discussed earlier (2.30 to 2.36) the four common service agencies in the laboratory group, their host departments and related central agencies do not appear to have attached primary importance to this objective, at least in the short run. The heads of the common service agencies in the laboratory group believe that they have had a beneficial impact on the cost of government through their pricing strategy and service improvement efforts discussed at 2.19 to 2.27 (because poor service can impose additional costs on clients through delays, the need to take remedial action and poor value for money). Only GTA appears to have developed a practical methodology for determining its impact on the overall costs or operations of government.

Working Environment

Introduction

2.50 The flexibility of the SOA gives managers an opportunity to manage the working environment in individual agencies so that the men and women who work in each:

- identify more closely with the agency, its values and its objectives than they can with the larger department or government;

- are sufficiently trained, informed and empowered to use their initiative to change the way they work and improve the agency's performance; and

- are recognized, rewarded and respected for doing so.

2.51 Insulated, to a degree, from its host department and the rest of government by its agreement, the SOA can develop a culture, or set of values, that is more businesslike than that of the whole government.

Agency "specialness" appears to allow a better working environment, although supporting data are subjective, and improvements untested.

2.52   Achieving these benefits is not without risks. Some observers have suggested that the current business rhetoric about employee involvement is really manipulation. They fear that greater managerial authority in SOAs, and the emphasis on performance, may lead to:

- elimination of public sector jobs regardless of the true costs to the public and with inadequate protection for employees; and

- insensitive, or even abusive, use of authority by managers, with inadequate redress mechanisms for employees.

2.53   Others express concern that the businesslike focus of SOAs will introduce values incompatible with the proper conduct of public business, or that the greater individual autonomy and diversity of SOAs will limit the cohesiveness of the public service.

Performance to date

2.54   Agency heads and some deputy ministers reported that the SOA status itself could stimulate change, particularly empowerment to get on with the business of the newly defined and chartered organization. The sense of "specialness" and being set apart from the host department provided a symbolic basis for developing a different set of values and culture. At the same time, it was acknowledged that the expectations of employees and other stakeholders were difficult to fulfil; expected changes not realized in some instances led to employee cynicism. Agency managers were acutely aware of this and pointed out the practical difficulty of trying to promote change in their agencies if the host department did not support such change or was antagonistic toward the "special" status.

2.55   Managers of most special operating agencies (9 out of 14) report some or significant improvement in their working environments. Of the five that do not:

- one was a "conscript" agency, which reports little change in any respect;

- two suffered from the disruptive effects of changes of agency head; and

- two acknowledged improvement as a priority.

2.56   The laboratory group agencies reflect the overall pattern. As a group, their managers reported the biggest improvements in matters that affected staff and values. Their assessments rely greatly on day–to–day interaction with staff, and on the extent of staff participation in improvement initiatives. The study counted an average of 12 major initiatives in each of the laboratory group agencies.

2.57   Any improvement in the working environment, no matter how small, would represent a major achievement in the current climate of distrust and poor public service morale. Union leaders, for example, pointed out that their views on the SOA model were strongly coloured by past experience with government generally and with individual managers specifically. Union representatives named managers who have established a reputation for integrity and trust. These managers seem able to secure considerable flexibility from union leaders on matters such as term appointments.

Two qualifiers

2.58   Two qualifiers must be attached to the perceptions of SOA heads regarding their performance in improving the working environment.

2.59   **Data are subjective**. First, the data on which they base their assessments are soft, given the importance of this aspect of their responsibility, and there are some contrary indicators, as might be expected.

2.60   Seven of the 14 agencies reported using survey methods to supplement normal feedback

mechanisms about their staff views. Five of the laboratory group agencies had done so. One agency – Canada Communication Group – had surveyed its staff on two different occasions so it could see the trends (which were generally positive). The others have established a baseline, but not trends that tell them how well their considerable investment of time is working.

Values are changing, and greater care would be appropriate to ensure that changes stay within acceptable bounds.

2.61   Union leaders are not yet ready to accept that the invitation for staff participation is real, despite the level of effort that agency managers have invested, including the creation of an elected employee advisory board in one agency. They cited inability to get clear answers about the business case for two specific agencies and mixed messages from the government overall about the "real" agenda underlying the SOA initiative.

2.62   **Improvements are untested.** Second, the strength of the improvement registered by SOA heads has not been seriously tested. As discussed under "Financial Performance and Productivity", SOAs have generally followed a strategy of improving productivity by expanding their output or increasing the value added to it.

2.63   Staff reductions of up to 30 percent are commonly reported in other government and private sector restructuring and are widely suspected/expected among union leaders.

2.64   Union leaders who provided input to the study were unconvinced that the business plans of the agencies were realistic (those they were aware of) and tended to suspect that SOAs were putting off dealing with productivity until their members were no longer protected by existing contracts and policies.

2.65   Union leaders are particularly concerned where agencies have applied for, or raised the possibility of, separate employer status before productivity issues have been resolved and it is clear what treatment will be afforded to those whose work or jobs are eliminated. It is clear that the distinction between SOA arrangements and the separate policy governing the granting of separate employer status is either lost or not accepted by many unions and their members. Such perceptions undermine efforts to engage employees fully in the move to more cost–efficient service in the SOA.

2.66   Studies elsewhere suggest that the way downsizing organizations involve staff in making such difficult decisions, and treat those whose work is eliminated, affects the working environment long after the downsizing is complete.

Managing the risks

2.67   **Insensitive use of authority.** One union leader referred to a pattern of insensitivity in one SOA, with specific complaints involving acting pay and travel allowances. However, the union did not see the need for, or value of, special measures beyond the normal public service redress mechanisms.

2.68   **Changing values.** The SOA is often described as a catalyst for cultural change. Cultural change can be good or bad. Other governments that have introduced similar vehicles have found it necessary to emphasize that the model does not dilute the high ethical standards expected of public servants.

2.69   It is clear that the language changes. And the expressed values of SOAs differ somewhat from those of the public service generally, as shown in Exhibit 2.69. As the language changes and SOA managers show that they encourage and value different attitudes and behaviours, they must take care that they do not inadvertently give the impression that nothing matters but performance, or that any and all business practices are acceptable in the conduct of public business.

SOA agreements give focus and direction within the SOA and – much less firmly – between the SOA and its host department.

2.70 The way staff perceive the values of SOAs is not known. Managers frequently are surprised, when they survey staff, by the discrepancy between what managers say they value and what staff see managers valuing in their day–to–day interactions with staff. This kind of data is not available.

2.71 There are some indicators of a need for more attention to this aspect. Allegations of improper business practices involving conflict of interest and unfair competition have been made against one common service SOA. Similar concerns have been voiced, in less acute form, in respect of two other common service agencies. Those allegations prompted the minister responsible to commission a separate and independent audit, and Treasury Board to review the competition policy. The audit concluded that:

> *...in the absence of central agency or (SOA) guidelines, the limits of acceptable practices for an SOA are unclear. While (the SOA) has been within its mandate, it has on occasion moved beyond the limits of what we consider to be acceptable practice.*

2.72 There are other indicators of the dangers in changing values. There have been reported instances of SOA staff accepting so completely the imperatives of "customer service" that they accommodated requests to invoice services and accept payment before the year end and before

Exhibit 2.69

Expressed Values: 5 SOAs and Traditional Public Service

Expressed Values

	A	B	C	D	E	PS Values
Service to public .. quality .. customer ... responsiveness	●	●	●	●	●	●
Honesty and integrity	●		●			●
Probity and prudence ... financial responsibility			●			●
Fairness and impartiality			●			●
Professionalism						●
Competition		●		●		
Work environment ... teamwork ... innovation		●	●	●	●	
Loyalty to government						●
Non–partisanship						●
Results ... efficiency ... business approach	●	●		●		

delivery, contrary to the provisions of the *Financial Administration Act*.

2.73   This parallels experience in other jurisdictions, where a more aggressive focus on performance has resulted in instances of personal and organizational behaviour that may be "businesslike" but that is not appropriate to the proper conduct of public business.

Direction and Focus

Introduction

2.74   The SOA aims to have the deputy minister and the agency head agree (or contract):

- what the agency is to achieve;
- who is responsible for what; and
- what are the boundaries of agency head discretion.

2.75   This aim recognizes two realities. First, there cannot be "one right way" to run all the myriad operations of government. Second, deputy ministers (acting for the minister) do not have time to approve all decisions in all the units that report to them.

2.76   Agency heads report on their performance, and that of their agencies, against the SOA agreement. Their reports, coupled with feedback from external sources, discussion, and periodic audits or evaluations, provide the deputy minister with the information needed to "close the loop" on the SOA agreement. Agreed responsibilities, and information about the discharge of those responsibilities, provide the basis for effective control without undue interference.

Results to date

2.77   On the positive side, agency heads have been able to use business plans to provide better focus and direction within individual agencies. All but one of the SOAs report improvement to some degree, laboratory group agencies reporting an average 3.3 points improvement on a 10–point

scale. Framework documents and business plans had much less effect on the way that SOAs and their heads relate to their host department, however. The more established departmental and central agency systems and processes for allocating resources, setting objectives and evaluating performance still apply to SOAs. They tend to dominate the SOA processes over time, and the "specialness" of the SOA fades.

2.78   Traditional patterns of command and control tend particularly to reassert themselves when:

- either the agency head or the deputy minister (or equivalent) changes – in the laboratory group agencies such pairings lasted an average of eight months between December 1989 and December 1993 (see Exhibit 2.78);
- management decisions begin to affect the interests of stakeholders – employees, customers, suppliers or competitors, or intended beneficiaries – to the point that they bring pressure to bear through the minister; or
- the agency incurs financial losses.

2.79   Exceptions to this generalization were seen where host departments had set up advisory boards to use the SOA framework, to develop a real understanding of the agency and its operations, to provide sustained, in–depth attention to its performance and that of its agency head, and to use information about performance to make the model work. The advisory boards of CORCAN and GTA provide the best examples. An agency head and deputy minister describe their relationships with the advisory board:

(it may be called advisory but) that board, like it or not, believes that I have accountability to it. And believe me, when I'm preparing for a board meeting, there's no doubt in my mind ...

I used to be on the old advisory committee to (the agency). In the middle 80s it was incredibly weak ... a bloody waste of time ... by a bunch of well–meaning people. The present one ... (to which the minister has appointed) some very good people ... meets a couple of days every few months. I find them quite helpful. I

don't find that they confuse my accountability, because they are advisory. The utter proof of that is that I chair it: otherwise I might be their chief resource person.

Clear, concrete and challenging performance objectives and priorities were sometimes set.

2.80 One reason for the mixed success of the SOA agreement to date is that it has no standing or permanency. It depends entirely on the good will and determination of the deputy minister:

... a deputy minister can kill an SOA very, very easily ... almost with a look.

2.81 On a more technical level, SOA agreements as reflected in framework documents and business plans do poorly at:

- establishing performance objectives and priorities;

- establishing the respective responsibilities of agency heads and deputy ministers;

- establishing the boundaries of authority; and

- specifying the information to be reported.

2.82 Overall, SOA agreements have yet to demonstrate that they provide a clearly better, and sustainable, model for directing and regulating the behaviour and performance of public servants.

Performance objectives and priorities

2.83 **Making clear what is expected, how fast.** Two, perhaps three of the six laboratory group agencies based their agreements on a clear, shared understanding of how performance was to improve, and how fast. The clearest expectation from a deputy minister:

I told (the agency head) "The only way I want to discuss this is if we are talking (about) real productivity increase and also about (increased

policy contribution.) ... I told (him) "we have to increase (output measure) by 25 percent per year, year over year, for four or five years... and each output has to see a productivity increase of 12.5 percent year over year for five years. If you can't (follow both streams) it's of no interest to me."

2.84 All three were "turnaround" situations, demanding rapid management action and results. A second deputy recalls:

People ask me, "Why .. the hell did you do that?" I pushed very hard (to make the unit an SOA). In my view ..(the operation) needed a kick. ... They needed a change.... We had been talking about changing (it) for a while. All of a sudden came this initiative ... and I said "Hey, that's what we need."

2.85 The benefits to be realized for external stakeholders, and the time frames for achieving them, were less clear in the other three laboratory group agencies. These agencies were "conscripted", often with very little advance notice.

.. in our case .. it took .. two hours to panic and two hours to write the business plan (after Treasury Board designated the unit as an SOA)

2.86 Beyond the laboratory group, there seem to be continuing difficulties in getting clear expectations about how, how fast and how much SOAs are expected to make a difference for external stakeholders. Audit teams from the Office of the Auditor General looking at current SOA applications, for example, have been unable to get clear answers to basic questions about how performance is expected to improve, and how fast.

2.87 **Performance objectives and priorities.** SOA business plans provide little discussion of relative priorities. Multiple objectives and competing priorities are a fact of life in government – and a major constraint to productive public sector management. In the view of the steering group, managers have to choose which two or three objectives to "nail to the wall", and which to treat almost as constraints, where a minimum

Exhibit 2.78

ACCOUNTABILITY RELATIONSHIPS
Training and Development Canada with Public Service Commission (PSC),

Position	1988	1989	1990	1991	1992	1993

Chairman, PSC — Sept. '86
Oct. '90 H. Labelle
R. Giroux

Exec. Dir., Training Programs — Oct '80
July '88 A. St.– Aubin
March '90 G. R. Gauthier (acting)
Aug. '93 L. Pearson
M. Murphy

Deputy COO, Staff Training — Oct '80
July '88 G. R. Gauthier (Director General)
Feb. '92 J. Westover
Vacant
Aug. '93 G. Bethell
J–P Groulx

SOA Status
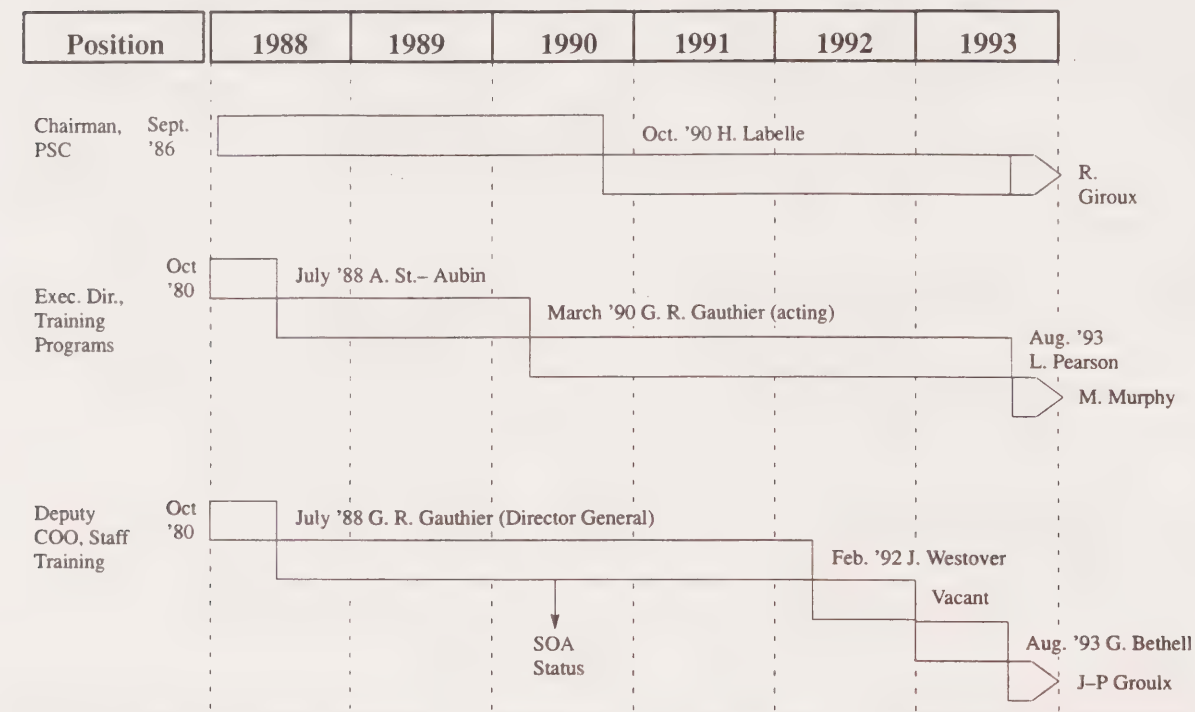
ACCOUNTABILITY RELATIONSHIPS
CORCAN with Corrrectional Service Canada

Position	1988	1989	1990	1991	1992	1993

Deputy Solitor General — Aug. '86
Oct. '88 J. C. Tait
June '93 J. S. Stanford
V. P. Harder

Commissioner CSC
Sept. '92 O. Ingstrup
Feb. 93 W. Gibbs
J. Edwards

CORCAN
T. Townsend
SOA Status
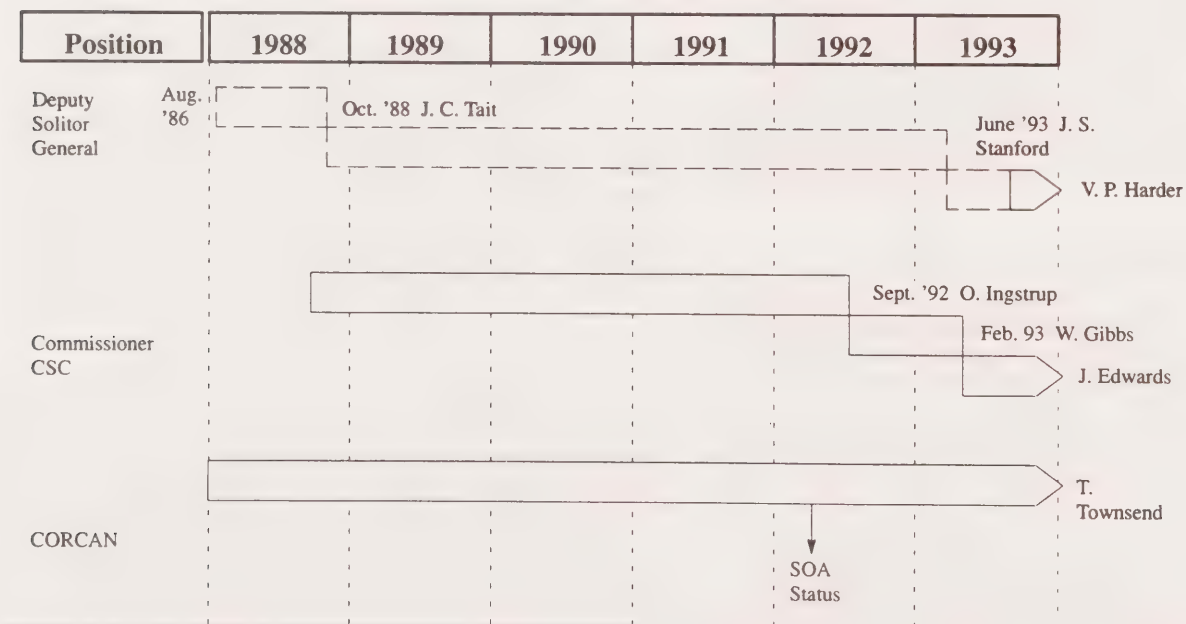
Exhibit 2.78

ACCOUNTABILITY RELATIONSHIPS
Passport Office with External Affairs, Public Security, and Foreign Affairs

Position	1988	1989	1990	1991	1992	1993

ADM, Administration Branch — June '90 R. J. Marsham — Sept. '90 G. Lambert

ADM, Consular, Immigration and Passport Branch — Sept. '90 — March '92 G. Stewart

Legal Advisor, Legal Affairs Branch — Apr. '92 — June '93 — B. Mawhinney

ADM, International Services, Public Security (proposed) — June '93 — Nov. '93 R. Girard

COO Passport Office — Sept. '70 — Aug. '89 R. Sutherland — Apr. '91 N. Wise (acting) — July '93 — Oct. '93 — R. MacPhee

SOA Status

ACCOUNTABILITY RELATIONSHIPS
GTA with Communications and (1993) Government Services Canada

Position	1988	1989	1990	1991	1992	1993

ADM Technology (Comm.) — June 86 — Michael Binder — June '93

GTA — Aug 85 — John Gilbert — Sept. '90 — René Guindon

SOA Status

ADM GTIS (acting) — June '93 — P. Janega

Merged with GTIS
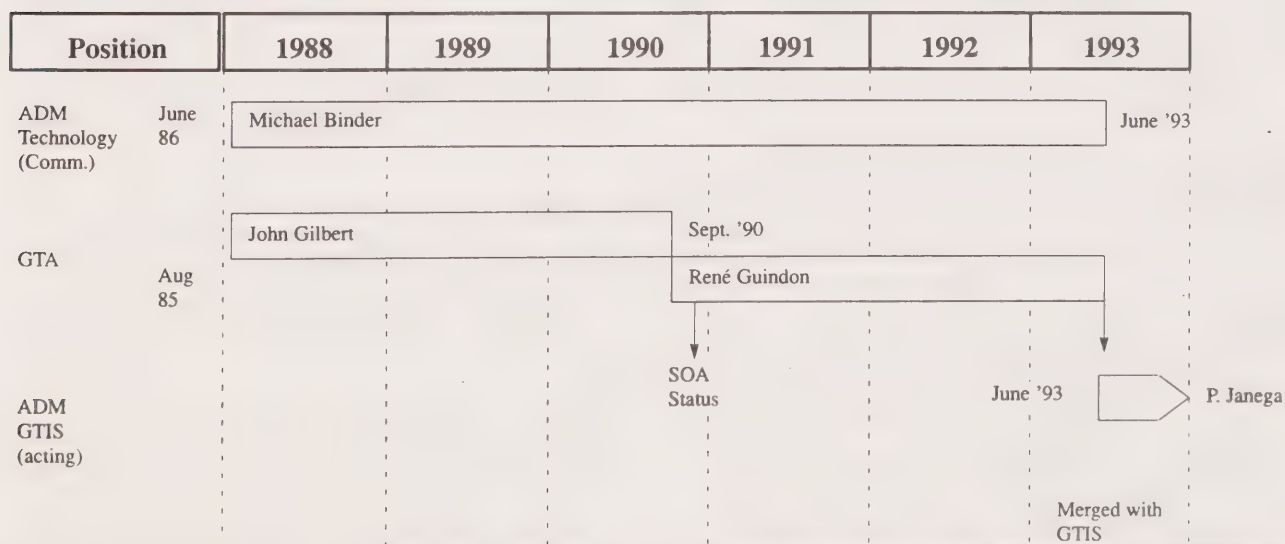
Exhibit 2.78

ACCOUNTABILITY RELATIONSHIPS
Canada Communication Group (CCG) and Consulting and Audit Canada (CAC)
with Government Services Canada (GSC) (formerly DSS)

Position	1988	1989	1990	1991	1992	1993

CEO (CCG)

DG | CEO → | N. Manchevsky

SOA Status

Reporting Relationship now Directly to DM

ADM Supply

Fall 91 C. Stedman

DM — Aug 85

Jun 90 G. Wyman

Nov. 90 A. G. Ross (acting)

Feb. 93 N. Mulder

Jun. 93 R. Hubbard

R. Quail

Senior ADM (MOSS)

A. Ross

CEO (CAC)

Jan. 92 D. Roth

Sept. 93 E. Baker

L. Pearson

SOA Status

(Amalgamation of BMC and ASB into one SOA)

Reporting Relationship now Directly to DM

DG (BMC) (Bureau of Management Consulting)

Dec. 89 S. Eisenberg

Apr. 90 J. Armstrong

DG (ASB) (Audit Services Bureau)

Apr. 90 R. Salmon

acceptable level of performance has to be maintained. This is difficult to do in the political system in which the SOA is embedded. For the SOA head, alone, to declare that any objective is not of the highest priority is to invite pressure from the stakeholders for whom that objective is the only priority.

Limited consensus about respective responsibilities of the agency head and host departments.

2.88   Not surprisingly, SOA managers express some disquiet about explicitly ranking priorities for performance improvement. As discussed above, objectives stated in the business plans tend to focus on financial objectives; so long as the agency doesn't record a loss, or too big a surplus, it receives little attention.

Establishing responsibilities

I don't give directions .. I give responsibilities

C. D. Howe

2.89   **Introduction and overview**. A contract usually establishes rights and responsibilities for both parties. The SOA agreement focusses on those of the agency head. It does not address those of the deputy minister or department. And its treatment of agency head responsibilities is incomplete.

2.90   The study found considerable disquiet among host department officials about how to allow agency managers more discretion and, at the same time, meet their own responsibility for effective control over the agency head's use of discretion.

2.91   **Between the department and the agency.** Interviews suggest that the SOA agreement had not significantly changed the way host departments thought of their relationships with SOAs compared with other departmental units.

2.92   Three of the 13 deputy or assistant deputy ministers interviewed for the study referred to specific changes in the way they related to agency heads compared with other subordinates, and the complications that such change entailed. The other ten referred more to differences in degree, in the amount of time that they would spend on agency matters (usually less than before, and less than with others who reported to them).

2.93   The study found limited consensus concerning responsibilities between agencies and host departments (especially with functional groups, on whom deputies traditionally rely for discharging their responsibilities for managing according to collective standards). For example:

- Four of six lab group agencies title the agency head as the president or chief executive officer, with the deputy minister (and by extension the minister) playing a role akin to chairman of the board. In the others, the deputy ministers (and by extension the ministers) see themselves as the chief executive officers.

- Host department finance officers sign the financial statements alone for two laboratory group agencies, jointly with agency officials for one agency, and not at all for the other three (but the text of one agency report assigns primary responsibility for the integrity of the financial statements to departmental officials).

2.94   **Responsibilities of the agency head.** Framework documents imperfectly reflect the full scope of agency head responsibilities, as agency heads and their deputy ministers perceive them.

2.95   The study team noted differences in the way different framework documents reflected agency head responsibilities. Some of the more obvious differences among the six laboratory group agencies, for example:

- Three assign specific responsibilities to the agency head to safeguard the assets entrusted to their stewardship; three do not.

- Five assign specific responsibility to the agency head in respect of maintaining a healthy working environment for the people who work in the agency; the sixth does not.

- The framework documents of three laboratory group agencies assign responsibility to ask periodically whether their activities are still relevant; three do not. (A former Clerk of the Privy Council suggests that this should be the second principle for public service managers.)

- One agency framework document identifies no policy responsibilities. The agency head's job description – on which his classification and pay are based – devotes about 17 percent of its content to policy responsibilities.

2.96   Because early SOA literature and agreements provided little guidance, the study team worked with some of the laboratory group agency heads and deputy ministers to try to find out how they see their own and one another's responsibilities. The study team provided, as a starting point, frameworks of respective responsibilities of agency heads and deputy ministers. These were derived from frameworks promulgated by the Canadian Comprehensive Auditing Foundation and the Society of Management Accountants in Canada. The agency heads and deputy ministers then added to, amended, or subtracted from these starting points to reflect their respective responsibilities as they saw them. The resulting frameworks are attached as Exhibit 2.96.

2.97   They are offered in full recognition that no frameworks substitute for people, and that no precise formula fits every circumstance. Nevertheless, the disquiet we observed calls for clarification and discussion. The study offers the framework as one start point for discussion, whether at the individual agency head/deputy minister level or at the level of overall guidance for the SOA initiative.

Establishing the boundaries of authority

2.98   Greater (but still relative) autonomy than that of other government units is an essential element of the SOA. As one deputy minister put it, *they may be more independent but they are still part of the (departmental) house.* The SOA derives its additional autonomy by negotiating exemption from policies laid down for the collective

management of the public service, or delegation of the responsibilities for applying them without pre–approval of every transaction.

2.99   Depending on the nature of the exemption or delegation sought, the SOA negotiates with Treasury Board or its host department.

2.100   **Financial.** Among the more important exemptions sought are those related to the obligation that government should have no source of revenue save those voted by Parliament each year. One effect of this is that managers have little interest or motivation to manage revenues because they flow into the Consolidated Revenue Fund.

2.101   In the SOA, exemption is achieved through one of two existing mechanisms – revolving funds or vote netting.

2.102   Revolving funds, which Treasury Board has authorized for eight SOAs including all six agencies in the laboratory group, are like a line of credit drawn on the Consolidated Revenue Fund. Once Parliament approves the set–up of the revolving fund, the revenues are designated for the credit of the agency, and surpluses are theoretically available, subject to the explicit approval of Treasury Board, to finance re–investment in productive capacity or to smooth over bad years.

2.103   Vote netting allows an SOA to offset a portion of the revenue it generates against its costs: Parliament votes only the net amount.

2.104   Other financial freedoms include the authority to set prices (typically allowed to common service agencies) without prior Treasury Board approval, and contracting authority.

2.105   **Personnel.** Less frequently, Treasury Board grants exemptions in personnel matters: one SOA has been granted separate employer status, giving it the authority and responsibility to establish separate classification systems, pay structures, and terms of employment. A second SOA already had this status before it was designated an SOA.

2.106   **Other.** Other authorities frequently mentioned include the right to establish a separate

Exhibit 2.96

DEPARTMENTAL AND AGENCY RESPONSIBILITIES: A FRAMEWORK

Key Roles, Functions, and Specific Governance Responsibilities of Deputy Minister Representing the Minister

1. **Understand the SOA:** Understand the objectives and strategies of the SOA, and its relationships with key stakeholders (customers, clients, suppliers, competitors, etc.)

2. **Represent the SOA:** Act as a bridge between the SOA and external stakeholders.

3. **Get the context right:** Establish corporate strategies and principles for the host department to provide the context in which the SOA operates, with clear roles and responsibilities between:
   * the agency head; and
   * host department functional groups.

4. **Gear up for governance:** Understand governance and oversight responsibilities and find appropriate ways to effectively leverage time by reflecting in:
   * Advisory Board composition, organization, procedures, and information flow; or (if no board is used) through other appropriate processes.

5. **Plan succession:** Select the agency head and senior management team, evaluate their performance, approve their remuneration and plan succession.

6. **Approve directions, check results:** Approve the directions and strategies proposed by SOA management. Identify the information needed to understand trade–offs and choices inherent in management's strategies, take the time to understand and use it to provide sustained, supportive and demanding oversight of the SOA's results and prospects. (performance against plan).

7. **Watch long–term viability:** Evaluate how balance of SOA activities and plans might affect long–term financial, political, and social viability of the SOA. In particular, watch the balance between:
   * long–term and short–term profitability, and between investment, return and capitalization
   * cost/profit and other objectives .
   * respective interests of different stakeholders (customers, employees, taxpayers).

8. **Watch business practices:** Find out how SOA management protects the credibility and property of the minister and promotes sound business practices at all levels of the organization.

SOA STUDY: AGENCY HEAD'S RESPONSIBILITY

ASPECTS OF SOA MANAGEMENT PERFORMANCE

ORGANIZATIONAL OR CORPORATE PERFORMANCE (ENDS)

Achieve objectives: realize business goals and policy purposes agreed with stakeholders and reflected in SOA's business plan.

Secure acceptance: understand stakeholder expectations for different programs, lines of business of the agency and secure their acceptance.

Watch secondary impacts: identify and respond to intended or unintended, positive or negative, secondary impacts.

Manage costs and productivity: manage and improve the relationships between costs, inputs and outputs.

Respond to change: anticipate and adapt to changes in markets, technology, funding.

MANAGERIAL PERFORMANCE (MEANS)

Set directions: set and communicate clear objectives for the SOA, its component parts and its employees, so that everyone knows what they are expected to do. Reflect objectives in plans, structures, delegations and decision processes.

Maintain relevance: adjust SOA's programs/lines of business so they keep contributing to users needs and policy objectives of host department and central agencies

Allocate resources appropriately: maintain and resource a reasonable mix and balance of activities to achieve objectives and maintain relevance.

Working environment: provide appropriate work atmosphere for employees that
   * provides opportunities for development, achievement; and
   * promotes initiative, commitment and safety.

Protect assets: safeguard assets – such as sources of supply, valuable property, key personnel, agreements or information – from losses that could threaten the success, credibility or existence of the organization.

Balance financial performance: match revenues and costs and assets, liabilities and expenditures, prepare financial statements showing the match.

Maintain acceptable business practices: establish, promote and enforce legal and ethical standards and core values of host organization.

Contribute to the host department: Contribute to the management and success of the host department as a member of the team.

Monitor and report: monitor key matters pertaining to organizational and managerial performance and capability, and report levels of performance, significant trade–offs made, and plans for continuous improvement.

identity through the use of logos, letterheads or telephone answering formats that establish or position the SOA as a separate entity.

SOA agreements could set clearer boundaries to authority.

2.107   The framework documents list specific exemptions from collective rules, which have been negotiated with departmental functional groups. Agencies self–censor in the negotiation process (according to interviews with those involved) knowing that they cannot "win" all they want. (Both agency staff and departmental functional groups describe these negotiations as frustrating and difficult.) They are also costly: it costs between $500,000 and $1,000,000, mainly in management time, to negotiate framework documents (study team estimate) with much of the effort going to internal negotiation with departmental functional groups. The result is that some SOA heads feel that they have not received all the authority they need to discharge their responsibilities.

2.108   Moreover, the framework document does not set clear boundaries for agency head discretion: for example, these transactions are prohibited; those they need pre–approval for; otherwise, they are free to choose the best way.

Responsibility to report

2.109   The SOA differs from its counterparts in other countries by treating the reporting responsibilities of the agency head as an internal matter between the agency head and the deputy minister. Any reporting beyond the deputy minister is accommodated within normal departmental lines. Where a revolving fund is involved, the agency (or the host department) also publishes annual financial statements for the SOA.

2.110   The Treasury Board discusses the role and content of the SOA annual report in an annex to an SOA paper:

The accountability "loop" is closed through an Annual Report. This is a separate document, provided within three months of the end of the SOA fiscal year. The annual report should contain an update on performance since the last report, year to date results at the time of the report, and revised year end projection. The report should also detail level of service indicators (both quantitative and qualitative) and indicators of financial results.

Monitoring Performance

Introduction and overview

2.111   **Introduction.** The SOA depends on information to maintain accountability in a system with fewer detailed rules and pre–approvals of individual transactions. Measuring the right things, measuring them right, and then using the information to improve performance are fundamental to the underlying theory of the SOA.

2.112   **Overview.** The information capacity within laboratory group agencies has improved over time, especially in respect of financial accounting systems to support annual financial statements required as part of the Public Accounts.

2.113   Other information capabilities, not demanded for external reporting requirements, have grown more slowly. In general there is no lack of data in agencies. And current investment plans will produce still more. There is, however, a lack of frameworks in which to organize data and turn it into information, a lack of capacity to use information outside the agency, and insufficient demand for information to ensure that the right things are measured. The demand for and use of information has been weak, except where advisory boards have helped the deputy minister play a strong governance role.

2.114   Public reporting has met Treasury Board requirements. Where individual SOAs treated Treasury Board requirements as a floor rather than a ceiling, public reporting has met or come close to meeting reasonable expectations.

The supply side: performance monitoring capability within the SOA

2.115   **Measuring the right things.** The study found that the biggest changes in what SOAs

measure were those triggered by the demands of external reporting requirements. Specifically, SOAs whose managers received revolving fund authority also had to adopt accrual accounting so they could report their financial statements in the Public Accounts. These requirements drove them to change what they measured – and the way they measured it.

Capability to supply information improves slowly in response to demand. Demand and capacity to use information remain the weak links.

2.116   Financial accounting systems, no matter how good, do not measure all the right things. Within the laboratory group agencies, the study found supporting data particularly soft in respect of the following:

- customer satisfaction, and related aspects like cycle time;

- the achievement of public purposes;

- productivity measures; and

- the working environment, and employee values and attitudes.

2.117   It was not that the agencies had little data. In many cases they were awash with data, and all the SOAs have systems development initiatives in place to develop more. Two things typically impeded the usefulness of data.

2.118   First was the absence of a framework that related data to decisions and combined data with management interpretation and analysis. The profiles completed by the laboratory group agencies for this study did not generate any new data, for example. What they did was ask managers to organize existing data into a framework that allowed them to look at it afresh (sometimes for the first time) and consider what it meant. In the two cases where study team

members sat in on agency discussions of the data, they observed considerable changes in managers' appreciation of their performance.

2.119   Second was the difficulty of getting data to the staff members best placed to use it, and training them to appreciate its significance. This is not just a technical problem but one of basic mindset and training, fundamental to the notion of "empowerment". One agency head described the difficulties of front–line supervisors in understanding that last year's expenditures (on inventory) affected this year's costs. The same agency head referred to the difficulty of introducing notions like "just in time" inventory management to a culture more used to "just in case" production management, where costs had never been visible.

2.120   **Measuring things right.** Laboratory group agencies have invested considerable time and resources in their information systems. And other agencies reported similar investment. But getting systems to measure things right is not easy. This is easiest to see in respect of the accuracy of financial systems.

2.121   The laboratory group agencies have improved their financial accounting capacity over time. CORCAN, for example, was able to adjust its expenditures quickly in the face of revenue shortfalls and to finish the 1992–93 year ahead of its financial projections. One agency has had its financial statements audited with a clean opinion from the first year of operation. Another has now been able to secure a clean audit opinion on its balance sheet after intensive effort to clean up the opening balances; it has yet to receive a clean opinion on its full financial statements. Other agencies do not have their revolving fund accounts audited.

2.122   Three of the six adjusted or corrected figures they had previously reported in the Public Accounts or in their annual reports. A fourth member of the laboratory group incurred unanticipated losses when its internal systems failed to reflect the emerging situation in time for management to respond.

2.123 The study team has no reason to believe that this is less true of the non–financial systems. For example, one agency that uses engineered time standards acknowledges that the standards need revising, and further, that re–engineering the work flow would yield substantial savings not made evident by the standards.

The demand side: using information as the basis for a different model of control and accountability

2.124 Few of the special operating agencies reported that their developing information capability had significantly changed their relationship with their host departments. One deputy minister had not seen the agency's business plan; another described how the minister's eyes rolled when he tried to take him through the business plan.

2.125 In four of the six laboratory group agencies, after the initial spurt of attention during the set–up of the SOA, past patterns of information flow and standard departmental and central agency mechanisms reasserted themselves. The information flow of the SOA agreement became subordinate to the parallel systems, on which real decisions were based.

2.126 The relationship between agency and host featured informal discussion, limited contact and exception reporting. Performance reports dealt mainly with financial matters. The SOA information flow appears to affect decision making to a limited extent.

2.127 The exceptions to this pattern were those agencies where the deputy minister (or equivalent) had appointed and supported strong and active advisory boards. These boards increased the amount of time available for understanding and scrutinizing agency and agency head performance, and provided much needed continuity.

2.128 The importance of continuity and active oversight is difficult to overstate. The ability

to understand, let alone provide meaningful direction to, agency performance when agency head–deputy minister relationships change as fast as they do is limited. One deputy minister acknowledged, for example, that he had not had time in his two–year term to fully appreciate the nuances of the performance indicators for an agency that reported to him, or how one aspect of its performance related to another. In such circumstances, the deputy (and minister) can easily become captive to the agency head.

Public disclosure is generally adequate where agencies do more than Treasury Board demands of them.

Public disclosure

2.129 Treasury Board rules for the SOA require that they prepare annual reports for the deputy minister. For public reporting purposes, SOAs report through Part III of the Estimates like all other units of government. Where the SOA has a revolving fund, Treasury Board also requires that the financial statements of the SOA be made public in Vol. II, Part II of the Public Accounts.

2.130 Agencies like the Passport Office, Canadian Pari–Mutuel Agency and Government Telecommunications Agency treat the Treasury Board requirements as a floor rather than a ceiling. They make an annual report publicly available. They reason that such public reports help build acceptance and understanding of the agency. Their reports meet or come close to meeting reasonable expectations for public disclosure by managers with significant stewardship responsibilities. Performance was marred in one case, however, when the agency stopped reporting a performance indicator when the trend turned down, rather than explaining the reasons.

2.131 For the others, information provided in the Estimates suffers from many of the problems referred to in the Auditor General's 1992 report on Part IIIs. It is disjointed, partial and does not

Exhibit 2.131

Revolving Funds

The Supply and Services Program is funded in part through five revolving funds: Consulting and Audit Canada, Canada Communication Group, Government Telecommunications and Informatics Services, Defence Production and Optional Services (the latter is made up of Traffic Management, Stocked Item Supply, Crown Assets Distribution and other services). The operating profit or loss is calculated on an accrual accounting basis, and therefore does not reflect the cash requirements of the funds which are included in the Estimates. Certain items that must be taken into consideration in calculating the profit or loss do not require a direct cash expenditure. As well, some cash expenditures included do not have an impact on the operating balance. The two can be reconciled as follows:

Revolving Funds	1994-95 Main Estimates			1993-94 Main Estimates
(thousands of dollars)	Expenditures	Revenues	Excess Expenditures (Revenues)	
Optional Services	153 290	151 435	1 855	2 286
Canada Communication Group	408 130	412 467	(4 333)	
Consulting and Audit Canada	65 543	65 543	.	'8
Government Telecommunications and Informatics Services	298 314	306 069	(7 755)	
Defence Production	2 000	2 000		
Operating Profit (Loss)	927 277	937 514	(10 237)	2 302
Adjustments to Arrive at Net Cash Requirements	11 912	.	11 912	
Main Estimates – Net Cash Requirements	939 189	937 514	1 675	

(thousands of dollars)	Optional Services	Canada Communication Group	Consulting and Audit Canada	Government Telecommunications and Informatics Services
Expected Operating Profit	(1 855)	4 337	--	7 755
Non-Cash Items included in the Calculation of the Operating Profit	404	4 725	1 090	1 947
Sub-total	(1 451)	9 062	1 090	9 70
Increase in Working Capital	(370)	3 062	909	(2
New Capital Acquisitions	774	6 000	931	8
Main Estimates – Net Cash Requirements	1 855	.	750	

Consulting and Audit Canada Revolving Fund (authority $30 million): This statutory authority provides funding for the provision of consulting, auditing and related services to the Government of Canada, Crown corporations, provincial and foreign governments and international, non-profit and other public sector organizations. It also provides funding for related capital expenditures, working capital requirements and the accumulated surplus/loss. These services are provided on an optional and fee-for-service basis.

Consulting and Audit Canada Revolving Fund: provides funding for the provision of consulting, auditing and related services to the Government of Canada, Crown corporations, provincial and foreign governments and international, non-profit and other public sector organizations. It also provides funding for related capital expenditures, working capital requirements and any accumulated loss. These services are provided on an optional, fee-for-service basis.

The **Consulting and Audit Canada Special Operating Agency** provides a comprehensive range of consulting and auditing services to the Government of Canada, Crown corporations, provincial and foreign governments and international, non-profit and other public sector organizations. Audit services include compliance, attest and value-for-money audits and other audit-related services. Its consulting services include expertise in the areas of Environment, Financial Management, Human Resources, Information Management, International Practice, Program Management, Project Management, Review and Evaluation, and Special Operating Agency services.

Significant progress has also been made in modernizing systems and services, using technology for the benefit of client departments, suppliers, central agencies and the Department itself. Working closely with all stakeholders, SSC continued to develop systems and services that address emerging needs in innovative, cost-effective ways. Examples included the Public Service Compensation System, Acquisitions 2000, the Financial Information Strategy Project, the Standard Payment System, the Electronic Procurement System and re-engineering of generic departmental administrative processes. As well, the three Special Operating Agencies – Consulting and Audit Canada, the Canada Communication Group and the Canadian General Standards Board – continued to evolve.

Special Operating Agencies. The evolution of the three Special Operating Agencies – Consulting and Audit Canada, the Canada Communication Group and the Canadian General Standards Board – is proceeding well.

Figure 31. Activity Resource Summary

(thousands of dollars)	Estimates 1994-95				Forecast 1993-94			
	Expenditures	Revenues	Net	FTE	Expenditures	Revenues	Net	FTE
Special Operating Agencies								
Canada Communication Group	422 094	412 467	9 627	1 544	354 219	348 121	6 098	1 555
Consulting and Audit Canada	66 293	65 543		660	73 362	65 120	8 242	440
Canadian General Standard Board'	4 926	2 580			4 794	2 757	2 037	57
Total	493 312	480 590			432 375	415 998	16 377	2 052

1. CCG data includes $9.6 million of Supply S...
2. CGSB is funded by appropriation

Consulting and Audit Canada ...ency on April 1, 1990. It provides a comprehensive ...ices to the Government of Canada, C... international, non-profit an... attest and value-for-mon... n the areas of the e... management interna... Operating Agency...

Figure 45. Projected 1994-95 Use of Authority, Consulting and Audit Canada Revolving Fund ...nt of public sector operations and management by delivering (thousands of dollars) ...m services in a commercially-oriented and business-like ...

Authority April 1, 1994	
Projected balance April 1, 1994	
Total Estimates (net cash required)	
Less: Balance March 31, 1995	
Unused authority as at March 31, 1995	

Figure 46: Statement of Operations and Financial Requirement

	Estimates 1994-95	1993-94 Main Estimates
	65 543	58 131
	22 570	17 963
	42 473	39 684
	500	500
	65 543	58 147

		Forecast 1993-94	
	Expenditures	Revenues	Net	FTE
	73 362	65 120	8 242	440

explain the choices made by managers in their
stewardship. Even with the financial statements
(which are not cross–referenced in Part IIIs) there is
no discussion and analysis. Exhibit 2.131 sets out
the information disclosed in Part III of the
Estimates for an SOA.

THE SOA AS A TRANSITIONAL VEHICLE

2.132   The SOA has been suggested as a transitional vehicle to prepare some units of government and their staff to exist and survive in more independent organizational forms within government, or even in the private sector.

Preparing for Distancing

2.133   Ministers, acting through their deputies, may wish to distance themselves from direct responsibility for day–to–day management of certain parts of their portfolios. For example:

- they may simply not have sufficient time to manage properly or even to oversee actively all the operations for which they are responsible, and may wish to share the burden and make visible the nature of their responsibilities;

- they may want to signal clearly that they are not "interfering" in sensitive areas where lives are at risk or the credibility of the function demands clear freedom from perceived "interference"; or

- they may want to share the funding burden with private sector operators who insist on more stable direction than the political systems can guarantee.

2.134   There are a number of existing organizational vehicles in government that allow them to do so. In order of "distance", a Treasury Board analysis lists:

- full executive agencies, whose heads have responsibilities defined in law and who report directly to the minister. Examples include Statistics Canada and Correctional Services Canada;

- Departmental corporations, boards, commissions and tribunals, such as the Agricultural Stabilization Board, or the Atomic Energy Control Board; and

- scheduled Crown corporations.

2.135   Exhibit 2.135 presents a Treasury Board schematic of a continuum of alternative delivery mechanisms within government. Beyond these mechanisms lie a number of ways in which government can interact with the private sector. SOAs have been suggested as intermediate vehicles to help prepare units and their staff to move further along the scale.

The SOA has been suggested, but not fully tested, as a transitional vehicle to prepare units to exist in more independent organizational forms.

2.136   This application has not been explored. Three departments had concluded that the SOA model did not meet their needs, and preferred to move directly to organizational forms more independent from government.
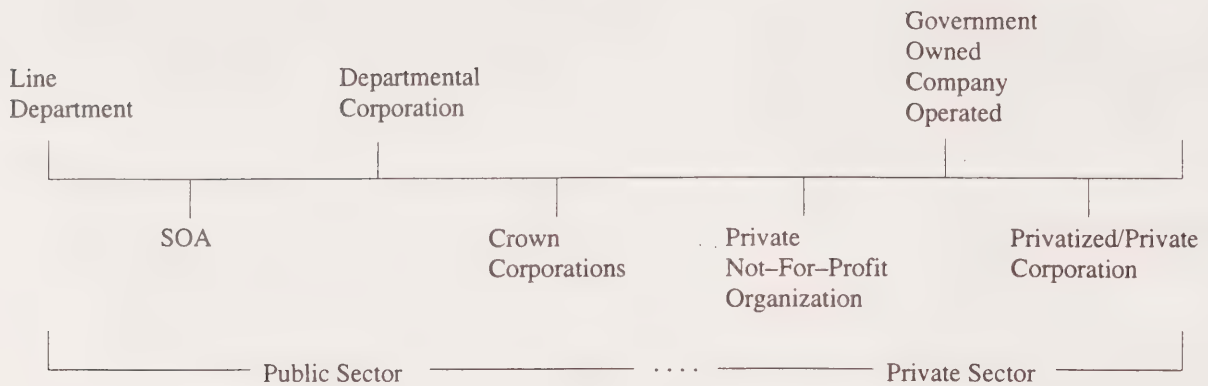
Preparing for Privatization

2.137   Government may want to cease providing some services. Depending on the circumstances, it may want to abandon the field altogether, privatize and regulate it, or sub–contract delivery of the service. The problems that led government to begin providing service may no longer exist or matter; technology may make possible better ways of achieving the same public purposes; or shrinking funds and competing priorities may make some public purposes unaffordable.

2.138   From the beginning, people have associated SOAs with privatization, whether as a prelude to it or as a defense against it. An unsolicited purchase offer triggered the creation of at least one SOA: at its then state of readiness, managers figured that it could not be sold as a going concern. A sale of assets would have yielded a poor return for the public investment and would have eliminated many jobs, if not most. Setting up an SOA would enable the agency and its staff to prepare for privatization on an orderly basis. It

Exhibit 2.135

Delivery Options

Line
Department

Departmental
Corporation

Government
Owned
Company
Operated

SOA

Crown
Corporations

Private
Not–For–Profit
Organization

Privatized/Private
Corporation

Public Sector · · · · Private Sector

Schematic of
Alternative Delivery Mechanisms

Independence

POLICY

Mixed
Enterprises

Crown
Corporations

Departmental
Corporations

Tribunals, Boards,
Etc.

SOAs

Departments

Dependence

Independence

MANAGEMENT
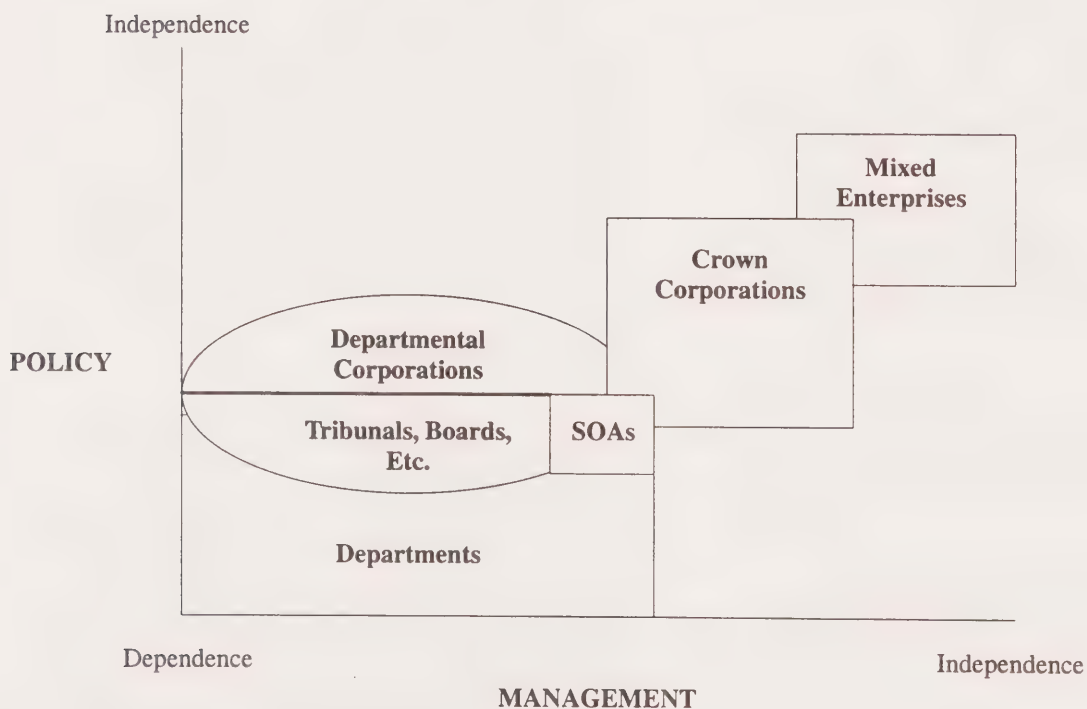
would also open up options so that the government could get offers from more than one potential purchaser.

2.139   This use of the SOA has not been fully explored: no SOA has been privatized to this time. The additional investment of time and effort may or may not be justified and the threat to employees may or may not have been dealt with better.

2.140   The ambiguous association of SOAs with privatization has, however, affected adversely the acceptance of the SOA as a whole, especially by the unions representing employees. Without strong oversight of SOAs, it also leaves the government vulnerable to the kinds of abuses that were manifested in private sector leveraged buy–out situations during the eighties.

2.141   For these reasons, the study report explores how government might strengthen the SOA set–up process to explicitly assess the continued relevance to government of each SOA; and to strengthen the non–executive oversight of the SOA. It also suggests that, where the set–up assessment indicates that the public purpose of an agency has expired, the SOA proposal and charter should set a clear timetable for divestiture, if immediate privatization is not feasible.

THE SOA AS A VEHICLE FOR LEARNING

2.142   Valuable, but limited, learning has taken place, largely about the mechanics of making the SOA model work in relatively marginal operations. This report, and a range of papers prepared by Consulting and Audit Canada, continue and consolidate the learning to date.

2.143   The government could better realize the SOA learning potential in future by:

- gearing up to learn, involving more of those affected, and with a clearer focus on the topics;

- trying the underlying model more boldly, or in a broader array of functions; and

- monitoring results more closely.

Gearing Up to Learn

2.144   During the first year of the SOA initiative, Treasury Board staff set up a steering group with members from the different branches of Treasury Board and from other central agencies. This steering group did enough learning to launch the first five SOAs, and then disbanded.

2.145   Treasury Board officials advised the study team that they stopped regarding the SOA as pilots after December 1990, when the government committed to extend special operating agencies. Continued implementation was turned over to a very small staff within Treasury Board Secretariat. The officer in full–time charge of SOA matters is situated four levels down from the Secretary, to illustrate. Continued learning took place through day–to–day interaction, coupled with a network of agency heads.

2.146   Assuming that the government wishes to continue with SOAs, it might be appropriate to reconsider that decision and gear up to learn more actively. Learning might be enhanced with:

- more open participation, involving representatives of other stakeholder groups,

such as legislators, unions and private sector representatives;

- a clearer focus on the issues to be learned about;

- better information, before the government needs to defend its position.

Valuable, but limited, learning has taken place.

Involve other stakeholders in the learning

2.147   The SOA model might better contribute to administrative reform if the government were to involve other stakeholders in the learning process, and build their understanding.

2.148   Government machinery performs the way it does because it responds to external influences. Chief among them are laws, conventions and stakeholder expectations and pressures. Significantly changing the performance of any agency means redistributing the benefits of its continued existence among its various stakeholders. Some will "win" and some will "lose". Better prices for the government through more aggressive contracting and applications of expertise may benefit the taxpayer and the user, for example, but it may not please the supplier community, and may add to the stress of the contracting agent. Shifting a point of delivery from one location (riding) to another may allow the agency head to save money and serve a larger number of users, but voters in the losing riding may not agree.

2.149   Lasting change in performance means changing either or both of stakeholder expectations (and the channels through which they are brought to bear) and the conventions and laws under which public servants operate. Stakeholders – public, parliamentarians, suppliers and competitors, and employees – will be more likely to accept such change if they or their representatives have been involved in the learning. For this reason, the report

explores alternatives for involving other stakeholders in the SOA learning process, both overall and at the individual agency level.

Identify the issues in which learning is needed

2.150   As discussed in the "Context" section, many previous administrative reforms produced disappointing results because they insufficiently took into account the tensions between businesslike management processes and values and the pressures and linkages of democratic administration.

2.151   These kinds of tensions are not to be "solved" overnight, or for all time: they are intrinsic to government management. The SOA offers an opportunity to learn about managing these kind of issues in miniature, and to explore different ways of managing or channelling the pressures that drive long–term public service performance.

2.152   The growing body of SOA experience has already brought one issue into sharp focus: government's relations with industry in an era of closer relationships and "strategic alliances". Closer, longer–term relationships between customer and supplier are becoming commonplace, replacing the one–off, transaction–by–transaction relationships of the past. The SOA offers an opportunity to see how far government can enter into such relationships while keeping an appropriate balance between achieving equity and efficiency and building Canada's competitive position. Many SOAs are exploring closer relationships with industry. And being able to manage SOA performance agreements successfully would provide some comfort about government's ability to manage closer relationships with private sector contractors, who do not necessarily share the same set of values.

2.153   Other issues that can arise, or that have already arisen elsewhere and about which the government might use the SOA to learn, might include:

- **maintaining parliamentary control without annual supply.** In theory, Parliament "controls" the executive by voting its annual supply of funds. But the supply process is widely reported to be a frustrating fiction. Revolving funds, which provide continuing authority to spend, offer an opportunity to look at an alternative to the annual cycle, featuring more in–depth and meaningful reviews when the SOA is created, its charter renewed, or its revolving fund authority increased. Such a cyclical review might be more constructive than the current process, which changes little in the Estimates as presented while tying managers to an annual cycle that provides disincentives to good stewardship.

Changing performance means changing expectations (and the channels through which they are brought to bear) or the conventions and laws under which government operates.

- **changing relationships.** Introducing organizational forms similar to the SOA has changed the way that the public, public servants, Parliament and ministers relate to one another in other jurisdictions. In Canada, too, the SOA offers an opportunity to learn about how to make work changes that are already beginning to happen, and how to protect the interest of the general taxpayer while giving more say to the users of specific services and the public servants who provide them.

- **changing values.** As discussed earlier, the introduction of SOAs in Canada appears to change values. Similar results have been reported in other jurisdictions, and the changes have not always been acceptable. The SOA offers an opportunity to look at how to bring incentives into line with desired values.

- **revenue dependency and taxation.** When government provides a monopoly service, financed out of user fees, what safeguards are appropriate to see that revenues do not become general taxation?

2.154 Preferably, that learning will be done before the government finds itself on the defensive against stakeholders who feel their interests are unfairly threatened – and before the SOA joins a long list of administrative reforms that didn't fulfil their early promise because they failed to connect managerial techniques to the parliamentary and political system.

2.155 Stakeholder involvement in the learning process could help government identify issues that matter to Canadians in general as well as to public servants.

Testing the SOA More Boldly

2.156 The learning that the government can expect from the SOA depends upon where it tries it, and how intensively.

2.157 At the time the study began (June 1993), the government had accumulated about 32 agency–years of SOA experience, 14 in five internal service agencies (average 3 yrs), and 18 in respect of 9 other units (average 2 yrs). These units provide a range of regulatory, training or information services to limited publics that are not central to their departments' operations. The relatively marginal scope and scale of SOA experience to date limited the learning in two ways.

2.158 First, host departments had little incentive or need to consider the kinds of adjustments they might have to make to their corporate structures and processes, to accommodate more autonomous agencies without abrogating their responsibilities. The June 1993 concentration of common service SOAs in the Department of Public Works and Government Services has resulted in a much greater focus on these issues in that department.

2.159 Second, the government is still learning about whether or how well it can use the

SOA for larger operations, for its core business – policy, or to manage such long–standing problems as:

- poor co–operation between federal departments, in areas of overlapping mandates that involve more than one minister. Bringing all staff whose efforts serve specific clients into one organization is common in the private sector. Creating an SOA to serve both ministers might help resolve some "turf battles." The New Zealand Ministry of Agriculture and Fisheries is one agency that has performance contracts with two ministers, for example. Such arrangements might be reasonably permanent, or they might be temporary: a form of virtual organization within government to solve particular problems;

- service delivery in areas of joint federal–provincial responsibility, where there are perceptions of overlap and duplication;

- lack of focus on government's interactions with specific groups, or even individual large corporations, that currently access the government through many program "windows".

2.160 Treasury Board naturally chose to introduce the first SOAs where it would be easiest, and it advanced freedoms that were relatively easy to grant.

2.161 Particularly in the early days, existing units were "conscripted" to explore the SOA idea. More recently, Treasury Board staff have encouraged volunteers. Existing organizational units may be the ones that should be protected through SOA agreements. Or they may not. For that reason, the study suggests that government target future applications as well as encouraging volunteers.

2.162 There may also be merit in using the SOA as a more intensive proving ground for greater discretion. Thus far, there has been relatively little exemption given, largely because the SOA operates completely within the existing legal framework. Innovations like agency head incentive pay have not been tried.

Future Monitoring

2.163   It should go without saying that there is a need to monitor and evaluate the continuing evolution of the SOA to see how later versions proceed and to see how well the course adjustments proposed in this report work out in practice. It would help this process to establish the framework of data needed to promote consistency.

Part 3
The Way Forward – Applying Lessons Learned

LESSONS LEARNED

Is the SOA for Real, or Empty Rhetoric?

It seemed that every time we were beginning to form up into teams, we would be reorganized. I was to learn later in life that we tend to meet any situation by reorganizing; and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency, and demoralization.

Petronious, 1st Century AD

3.1 The SOA can be either real, or empty rhetoric. It is not – and was not intended to be – a panacea for public administration in responding to the pressures for change. Transition and experimentation usually result in uneven progress and some "failures". This should be expected and acknowledged as fundamental to innovation and change – the key is to learn from the process.

3.2 Which it turns out to be in practice depends on many factors. The performance of an SOA reflects the combined effects of:

- inherent characteristics of the agency and its agreement;

- the courses taken by its head and staff;

- departmental and government directions and influences; and

- pressures from external stakeholders.

3.3 There is no scientific way to prove which of these factors contributed most to the results discussed in the preceding part of the report. All were at play. What this part of the report can do is draw out patterns from the SOA experience, and identify those factors that are linked to success and those that are commonly linked to problems or reversals.

3.4 This section identifies and discusses four catalysts that are linked to SOA progress. Two of these are "special" to the SOA – visibility, and revolving funds and accrual accounting – while the other two – clear goals and willingness to change – can be shared with the rest of government. The report also identifies four impediments to the SOA: mixed signals; unclear responsibilities and authority; lack of time to use SOA information processes; and reluctance to report and explain performance.

Four things make SOAs special: visibility; revolving funds and accrual accounting; clear goals; and willingness to change.

3.5 Before leaving the topic of rhetoric, however, a word in its defence. The SOA rhetoric helps managers to get the process going. It introduces a different language that allows managers and their staff to look afresh at old issues, to raise performance expectations, to persuade staff that there is a different way to do things. Expectations quickly fall, however, as the differences between rhetoric and reality become apparent. Performance may get worse, too. It is at this point that resilience and persistence come into play. An agency head recalls:

You've got to sit there and you've got to look into those eyes (of cynical or demoralized employees) and you've just got to keep believing that it will work. And you just keep doing it. And you just keep <u>doing</u> it. And you just <u>keep</u> doing it. [emphasis added]

Four Catalysts for the Real SOA

Visibility

3.6   Becoming an SOA makes sub–units of government separately visible and identifiable, bringing them into focus in a way that just doesn't happen when they are submerged within a much larger unit. The "system" cannot keep all the operations of government in focus. Ministers, deputy ministers and central agencies do not have enough time, attention and capacity to understand all the operations of government, or how one aspect of performance affects another, to evaluate their performance meaningfully, let alone sustain demand for real improvement. A Treasury Board official explains:

> *One of the problems (of resource allocation) ... at the centre is that ... (meaningful performance indicators) at the macro level are probably totally unrealistic. (But) as soon as you start going down the service lines ... you get lost in the trees. ... when you make an SOA, it forces everyone to get focused.*

SOAs become visible during the set–up process: keeping them visible takes more time and effort than deputies can provide within existing arrangements.

3.7   SOAs become visible during the set–up phase. To the extent that the agency, its performance, and that of its managers remain visible and in focus, SOAs stay "special". If not, they will likely merge back into the trees. Keeping SOAs and their performance in focus and subject to supportive, sustained but demanding oversight takes time, effort and information. But it keeps them visible, and special.

3.8   The distinct visibility of the SOA appears also to play an important role in securing staff involvement. Agency heads went to great lengths to secure visibility so that staff could identify with, and feel part of, the agency. They reasoned that staff had to identify first with the agency and/or its head before they could be expected to identify with its mission, plans and objectives. In some cases they went to great lengths to build that identity, often facing considerable opposition from the host department.

3.9   (It has been suggested that the word "special" in the SOA title should be dropped, because it alienates other public servants and diminishes other initiatives. An alternative is to level up rather than down, and find ways to make them all "special".)

Revolving funds and accrual accounting

3.10   The six laboratory group agencies studied in depth all had revolving funds: three from before becoming SOAs, three as a part of the SOA process. The revolving fund and the accrual accounting that goes with it played a large part in the change of attitude in the three agencies that received them. (See paragraph 2.119.) The revolving fund mechanism provided some exemption from the traditional parliamentary and central agency controls over annual spending, giving managers the authority and incentive to balance current spending and investment for the future: they provide a measure of stability, allowing their managers to manage with less fear that resources unspent will disappear, or even cause future budgets to drop. Revolving funds give managers the authority that matches their (implicit) stewardship responsibility, and the accrual accounting that goes with a revolving fund makes visible the asset base for which they have stewardship responsibility.

3.11   Two other SOAs also have revolving funds, while seven SOAs do not have revolving funds: the study did not examine in depth any of these agencies because it was agreed that it would be too early to assess progress. The study is not, therefore, in a position to say whether agencies without revolving funds and the associated accrual accounting will achieve similar or better results than those with them.

Making clear what is expected, how fast

3.12   Setting up the SOA should make very clear why the SOA model is being adopted. To do so, the process should answer questions like these:

- What (different) is expected to happen, how fast?

- Which stakeholders will benefit, in what ways?

- How will progress (achievement) be measured?

- What is the policy reason for retaining the agency's operations in government? If there is no longer a valid policy contribution, how long will it take to prepare the agency for privatization? Why not simply close it down?

> *Being clear about what is wanted – getting the basic questions answered – is key.*

3.13   Three of the common service agencies in the laboratory group suffered – and still suffer – from confusion about such basic issues. The fourth common service agency has been merged with other units.

3.14   Those agencies that progressed furthest and fastest, in the views of their own managers and the study team, were those with the clearest vision of what was expected of them.

Willingness to change matters, both in and around the agency

3.15   There is no formula for guaranteed success in introducing the SOA. But it is unrealistic to expect the same people, subject to the same pressures, to perform differently. In the words of a deputy minister:

> *... in public service ... we often say we want to do the same thing, in the same way, and expect a different result. In my view, this is ... insanity*

> *The same people, doing the same things, in the same way, subject to the same pressures and incentives, will usually produce similar results: at least some of the fundamentals have to change.*

3.16   Perhaps the most troublesome pattern observed by the study team was the tendency to "cherry–pick" the underlying theoretical models: to adopt them only to the extent that they were easily accepted, leaving fundamentals unchanged. The perception that the underlying models had been compromised led one senior official to observe, half in jest, that SOAs were a good idea, and that the government should try them.

3.17   The more of the following matters that change, and the greater the degree of change, the greater the likelihood that setting up an SOA will lead to real change.

3.18   **The people who run the agency.** The experience of the laboratory group agencies underlines the lessons learned elsewhere. People, and particularly the agency head, make the difference. As a departmental assessment notes: *"The Deputy Minister will want to make the choice and possible competition for the Chief Executive's position his first priority."* Laboratory group agencies progressed further, faster when headed by someone who knew well either the business of the agency or the major stakeholder, and who either:

- used the SOA set–up to overcome constraints to achieving a vision of what the unit could be; or

- was brought in fresh to achieve, through the SOA, improvements the stakeholder(s) demanded.

3.19   They also progressed more when the agency head brought in fresh blood to the

management team to provide needed technical, financial or marketing skills. Conversely, one agency attributes its disappointing start–up largely to difficulties and delays in attracting such skills.

3.20   The nature of the competition. All government agencies compete for funds and the mandates (monopolies) that secure funds. Changing the basis on which they compete and the identity of those who control the funds is a clear signal that change is seriously intended. Will the agency:

- continue to compete with other units of the department and government for funds controlled by Treasury Board or departmental "comptrollers"? or

- now compete with other providers of similar services for funds controlled by those who use the specific outputs, or those whose policy purposes are served by them?

3.21   All four optional common service agencies in the laboratory group reported that optionality had played a key role in getting their staff to focus outward more, and to see the users of their services in a different light. One was offered the choice of having its services made mandatory again, but declined because of the effects such a decision would have had.

3.22   Conversely, preservation of old funding patterns may perpetuate old problems. CORCAN provides industrial training to inmates of federal prisons so that they can more easily find jobs on release. Correctional Service Canada, its host department, pays CORCAN about $18 million per year (about 35 percent of its revenues) to compensate for the inefficiencies of operating inside penal institutions. CORCAN faces continuing and serious difficulties managing its relationships with wardens, and securing their interest and support – which are essential to its operations. Keeping the subsidy central may have lessened the wardens' interest and incentive to see CORCAN succeed: making them "customers" might increase their interest and ability to influence CORCAN. For example, each warden could be made responsible for the post–release employment rate of inmates, and be given his or

her share of the total training budget <u>and</u> the right to choose CORCAN or someone else to deliver the training.

3.23   The basis of funding. Does the introduction of the SOA change the basis of funding from inputs (which rewards existence) to outputs or outcomes (which rewards performance)? Output–based funding has been applied even to policy advice in other jurisdictions.

3.24   Management responsibilities. Are the defined responsibilities for managing the operations any different from before?

3.25   Oversight or governance responsibilities and mechanisms. Does the set–up change the responsibilities for overseeing agency and agency head performance, the mechanisms for using the SOA information flow and for channelling pressures to the agency managers? Do they involve different people?

3.26   Start–up funding. Does the extent of start–up funding (or revolving fund flexibility) adequately allow for the necessary investment in agency capabilities?

3.27   Public disclosure. Is there a commitment to public disclosure? Experience to date in Canada mirrors experience elsewhere: public disclosure requirements drive internal information systems. And the prospect of public disclosure concentrates and sustains attention at senior levels.

Impediments

Mixed signals

3.28   The study observed both the positive effects of clear central support from Treasury Board and the negative effects of mixed signals from different central agencies, and even from different branches of Treasury Board.

> *Well, it's not just here (in Treasury Board Secretariat) that there is not a completely shared view of what this exercise was about but it's also in other places, other central agencies to say the least.*

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*Main impediments: mixed
signals; unclear responsibilities;
insufficient time for using the
SOA processes; and reluctance to
report externally more than is
demanded internally.*

3.29   At the highest level, the signals have been most mixed about the objectives of the SOA, as discussed previously (paragraph 2.1) in this report. And there were different views on how much and how fast performance was expected to change in individual agencies (paragraph 2.83).

3.30   On a more concrete level, the original announcement of the SOA stated that it would compete with the private sector in some cases. Three common service agencies obtained the necessary authority from Treasury Board, but report being discouraged from competing.

Unclear responsibility and authority

3.31   **Agency heads and (deputy) ministers**. The report has already discussed at some length the lack of clarity in roles and responsibilities between agency heads and deputy ministers (and, by extension, ministers). Treasury Board officials, reviewing an earlier draft of this report, reacted negatively to the suggestion that there was an SOA model. They argued that the uniqueness of each situation demanded flexibility, precluding any "model" SOA.

3.32   The study team agrees that it would be inappropriate to try to specify individual relationships too closely. The current situation has, however, perhaps too much flexibility. Advisory boards have been let slip and two of the laboratory group agencies report being drawn back into their host departments, losing the limited autonomy they had been granted. Knowledgeable observers have compared the current SOA situation to that which existed in Crown corporations before the government amended the *Financial Administration*

Act and provided a framework, or model, for the respective responsibilities of ministers, boards of directors and managers.

3.33   Current SOA proposals reportedly will more than triple the number of public servants who work in SOAs. The study team thinks that it is important to clarify the respective responsibilities of agency heads, advisory boards and deputy ministers.

3.34   **Functional groups**. SOAs disrupt existing patterns of attitudes and behaviours in government, especially in central agencies charged with collective control of the government and in the functional groups that provide their departmental counterparts. A member of the steering group has emphasized the need to help functional groups adjust rather than "going to war" with them.

3.35   Achieving a unified but not uniform public service that can accommodate SOAs – and indeed, the kind of system–wide changes encompassed in the Public Service 2000 renewal initiative – depends largely on ministers and their deputies. They have to insist that functional groups find new ways of regulating, without "controlling".

3.36   The head of one department's personnel function offered an alternative to controlling individual transactions, based on linking responsibility to information about performance. Referring to how his department "regulated" the touchy issue of maintaining the merit principle in relation to term employees, he discussed how he used information and disclosure as a substitute for pre–approval (the performance report referred to was and is made):

> *... we immediately gave authority to managers to ... take term (employees and) make them full time. All we did was (tell) the managers "you're accountable and we are going to prepare a (performance report) and we're going to show the results. ... we are prepared to be accountable to the unions and to anyone else. ... the unions .. didn't sign it, but they agreed to the delegation.*

3.37   The study team described this approach in greater detail to the head of an SOA engaged in drawn–out and difficult negotiations to reclassify jobs in his agency and contemplating seeking separate employer status. He responded that he would not even consider the added expense and complexity of becoming a separate employer if his department's personnel function were like the one described.

3.38   The study report suggests that the government consider guidelines on the exercise of functional authority and on the nature of the irreducible core values and prohibited transactions of organizations engaged in public business.

Incomplete docking of the SOA information processes

3.39   The requirement to produce SOA business plans and reports coexists with the established requirements by departments and central agencies. Even those SOAs with revolving funds have to complete standard submissions for Estimates purposes, and business plans are homogenized into management accords. Given that the regular departmental and central agency systems are the ones on which decisions are based, it is perhaps not surprising that the SOA processes attract little attention.

3.40   Time pressures lie at the heart of the problem of incomplete docking of the SOA in the broader system. It takes time to understand and use SOA information flows to provide a practical alternative to traditional means of regulating and controlling public servants. But time is the scarcest resource for ministers and their deputies. To try to strengthen the monitoring capabilities of deputy ministers, the report suggests guidelines for the use of advisory boards, and a framework for public reporting that will influence the information flow of SOAs. It also suggests measures to use the SOA process and outputs within the overall government processes.

Reluctance to report and explain performance

3.41   As noted earlier, public disclosure requirements tend to drive internal information flows and system development. Some SOAs have gone beyond the minimum public disclosure requirements. Others, however, express considerable disquiet about the prospect of greater public disclosure. They cite concerns about business confidentiality, access to information and the possibility of embarrassing the minister, under the convention that only the minister explains and defends the decisions and trade–offs that underlie performance.

3.42   Their concerns parallel those expressed by managers in other situations. Crown corporations – from which the government demands much more stringent public disclosure – advanced similar arguments when Part X of the *Financial Administration Act* was under consideration. And private sector managers often advance similar arguments when stock exchange authorities and other regulators call for greater disclosure. SOA managers have the additional concern that more meaningful public disclosure of their stewardship might publish more information than existing internal governance arrangements call for.

Stakeholder Support and Acceptance

.... a technically sound policy, the most economical solution to a problem but one that the public will not accept, is a bad policy and a bad solution.

Allan Blakeney

3.43   The way forward should take into account the level of stakeholder support and acceptance of the SOA. Stakeholder support and acceptance affect SOA performance directly, if not always visibly. Managers gauge them carefully and tailor their actions accordingly:

We haven't faced any tough issues in the (SOA) yet. I'm pressing (the agency head) now to produce a plan (to deal with some of them). ... we could probably blow this SOA out of the water in a minute or two by raising some of

these issues in the board. That'll go back to the (constituents' interest group) and next thing you know, there'll be a host of questions ... then they're into the Minister's office and then the deputy is on the job, you know. We've just being going along, just the way we used to.

Demonstrably better government that costs less – the key to acceptance and support. Stakeholder involvement is needed.

3.44   Public servants. The current level of stakeholder support is reasonably high among officials who have been involved in SOAs in a line capacity. Awareness and acceptance drop off quite quickly, however, with distance. Within the public service, functional and central agency officials are lukewarm to negative. Colleagues of agency heads (assistant deputy ministers and directors general) are sceptical to lukewarm.

3.45   Treasury Board officials disagree with this assessment, suggesting that public service acceptance is not this low and that the underlying reasons relate to lack of knowledge. They may be right as to the cause, and the report suggests a

number of measures to build acceptance. The study team suggests that they may be unduly sanguine about the extent of scepticism.

3.46   Unions. Union officials are concerned lest the SOA initiative be used as a way to remove the safety net from under their members in the downsizing of government that they acknowledge is coming.

3.47   Suppliers and competitors and users. Suppliers and competitors of SOAs, who are often one and the same, welcome the prospect of strategic alliances with government but fear that they will end up competing with agencies financed by their own taxes.

3.48   General public and parliamentarians. The study found comparatively little public awareness at present. In the long run, the best way to win support is through results – by producing demonstrably better government that costs less. The potential of the SOA has not yet been fully tested and government is not yet in a position to show that the SOA produces such a result more often than not.

3.49   Until it can, acceptance and support are likely to be conditional, requiring stakeholder involvement. The study report accordingly suggests ways to open up the SOA process to stakeholder input at all levels.

APPLYING LESSONS LEARNED

Introduction and Key Conclusions

3.50   Before suggesting how to apply lessons learned, it may be helpful to summarize the key conclusions of the Steering Group. These conclusions represent judgments based on interpretation of available facts, supported by reasoning derived from the experience of other jurisdictions and the private sector.

3.51   The SOA initiative explores, on a small scale, how Parliament, ministers and the supporting bureaucracy can safely exchange the traditional top–down tools of control and regulation for tools based on trust, commitment to shared goals, and disclosure of performance.

3.52   The essential elements for making this exchange – businesslike planning within a framework of authority, responsibility for results, and disclosure of performance – have been recognized for a long time in Canadian administrative reform initiatives. They represent good management practices that are as applicable to the public service at large as to the organizations selected to be SOAs. Properly combined, these elements could lead to improved cost–effectiveness and better involvement of key stakeholders.

3.53   More autonomous, "deconstructed" program delivery units like the SOA provide one avenue to introduce the essential elements in government, helping them to adapt to resource limitations while, at the same time, harnessing the initiative and innovation of individual service providers. Other governments and private sector organizations have followed this approach. Some appear to be making it work.

3.54   The history of past administrative reform initiatives in Canada, and the more recent history of the SOA, show that it is not easy to introduce or sustain these elements in the political system, however, or to realize their potential. While prediction cannot be as certain as hindsight, it appears that the SOA has not been implemented in a way that sufficiently supports the essential

elements to withstand the rigors and stresses of real change, even in the comparatively limited situations where it has been tested.

3.55   A fundamental issue running through the history of past reform initiatives – and the SOA experience – is the relationship between public servants, ministers and Parliament. Other jurisdictions that have introduced arrangements similar to the SOA have found it necessary to adjust the tactics, if not the theory, of ministerial responsibility for operational matters.

3.56   For practical purposes, the Steering Group has assumed that SOAs will continue to operate within the framework of traditional ministerial accountability. However, the additional discretion and authority granted to SOA heads will create tensions in the system: as they improve performance, they will benefit some stakeholders more than others. Support by ministers will be essential if the SOA is to adjust the distribution of stakeholder benefits.

3.57   Hard data about SOA performance are limited, for a number of reasons. In part, the inability to demonstrate clear benefits is because of unclear objectives and performance priorities – particularly public purposes – for individual SOAs. In part it is because SOAs were not required to develop and report relevant information, and in part it is a timing issue related to the relatively short life span of SOAs. Structural changes and reorganizations take time to show better results (results can often deteriorate in the short term); tough performance issues – those that affect the balance between the interests of inside stakeholders and those of the general taxpayer – remain to be dealt with.

3.58   The hard data available are not as positive as the members of the Steering Group would like to have seen to support their conclusions. There are encouraging early signs, but the potential of the SOA has not yet been realized; the government is not in a position to show that the SOA consistently produces clear, concrete and sustainable benefits for the taxpayer.

3.59   But hard data do not tell the whole story. Members of the Steering Group and study team

have also observed the enthusiasm and energy of the men and women who work in the SOAs, and have considered experience elsewhere and their own experiences and knowledge of the SOA. Members of the Steering Group have also brought to bear their considerable experience with reorganization and restructuring in public and private sectors.

3.60   The Steering Group has concluded that, for certain government activities, SOAs should be able to provide better service at lower cost and should therefore be continued if Treasury Board ministers, ministers and deputy ministers of departments within which SOAs are situated, and agency heads:

- provide clearer focus and direction for the SOA initiative as a whole;

- build greater acceptance and support for the SOA concept among stakeholders — public servants, unions, suppliers and competitors, the general public and parliamentarians;

- improve the criteria for determining which government activities should be converted into SOAs, and which SOAs, if any, should be moved into an alternative structure;

- set clearer, more concrete performance goals and improvement priorities for SOAs and include them in agency charters with appropriate permanence, establish more clearly the respective responsibilities of SOA heads and deputy ministers under the umbrella of ministers and match these responsibilities with appropriate authority and discretion, and monitor agency performance with respect to the goals and priorities established;

- establish a framework for public reporting using existing departmental accountability reports (Part IIIs of the Estimates) with appropriate safeguards to deal with confidentiality;

- develop and adhere to clear guidelines for SOAs that compete to supply government departments, and that compete for markets in the private sector; and

- provide for subsequent stocktaking of the SOA initiative to assess progress and make appropriate adjustments as may be required.

Clarify Direction and Focus

3.61   **Introduction.** There are a number of practical actions that could be taken, to clarify the direction and focus of the initiative and link it to a broader public service renewal agenda and to better exploit the learning gained from the SOA experience to date.

Issue a fresh policy statement on the SOA

3.62   The current and emerging scope of the SOA initiative, in contrast to its 1989 beginnings, indicates a need for an updated policy statement on SOAs that sets out the expected evolution of the initiative as an aspect of broader reforms. Put simply, the government needs to make up its mind what it wants from the SOA.

3.63   Members of the Steering Group recommend that the government adopt the SOA for certain situations (described in more detail below). Whatever the government's decision, consultation around an updated draft policy would provide an excellent opportunity for developing a broader consensus on the future of the SOA.

3.64   Within a fresh policy statement on the SOA, consideration might be given to:

- differentiating among different types and applications of SOAs that the government chooses to support; and

- giving attention to departmental governance issues brought to the fore by SOA experience, i.e., the implications for departmental structures and processes and how they should evolve to exploit the principles inherent in the SOA model.

Link the selection process to broader reform

3.65   To the extent that the government decides to test application of the SOA in different situations, the selection process should ensure that

the SOA is applied in better response to reform priorities. Such selection would complement the current, and constructive, emphasis on individual organizations identifying themselves as candidates for SOA arrangements. This would also provide opportunities to pilot test the delegation of authorities Treasury Board intends to provide more extensively. Input about these priorities could come from Privy Council Office, from a steering group, or from a "champion".

Strengthen the central focus of the initiative

3.66 Depending on how the government wishes to direct the SOA initiative in future, SOA practitioners were close to unanimous on the need for a better focus in government to guide the initiative. The actions that follow could improve the central focus.

3.67 Designate a "champion" or champions. Other governments, notably the UK, designated a full time, senior–level champion to make their initiatives happen and to keep them on course. Strong extension of the SOA model might warrant such action in Canada.

3.68 As well as designating a champion at the centre, it might make sense, given the importance of ministerial and deputy ministerial support to SOAs to date, to designate two or three departments where the future learning can be concentrated in a supportive but demanding environment.

3.69 Move the responsibility closer to the centre. The strong pioneering efforts of the Treasury Board Secretariat in advancing the initiative to its current state were commended. Many participants felt that the operational responsibilities and role of the Secretariat overwhelmed the more discretionary activities related to the SOA reform initiative. Some even felt that they conflicted. As an alternative, and as a symbolic act, they suggested that associating the championing of the SOA initiative with the broader reform leadership – which falls under the Clerk of the Privy Council – might assure better co–ordination and advocacy.

3.70 Develop an appropriate forum for obtaining stakeholder input. The Steering Group on SOAs should be revived and take an active role in giving impetus and direction to the initiative. This committee could play a focal role in screening SOA applications, in ongoing monitoring and evaluation of experience, and in learning more actively from, and providing direction to, the SOA initiative. With appropriate stakeholder representation it could help establish acceptance and trust where needed.

Build Understanding, Acceptance and Trust

3.71 Members of the Steering Group agreed on the need to build greater acceptance and support for the SOA concept among stakeholders – public servants, unions, suppliers and competitors, the general public and parliamentarians. Throughout the study, respondents stressed the need for political support, yet it has been evident that ministers and other parliamentarians have not been seriously seized with the SOA initiative and influenced its evolution. This may reflect a reality that the interim results of the SOA initiative may not provide sufficient basis for attracting political interest and support.

3.72 At the present time, resistance is mounting from some stakeholder groups. It is essential that opportunities be found to engage other stakeholders, particularly employees, their unions, private sector interests and parliamentarians. The measures that follow are believed to be useful proposals for building understanding, acceptance and trust among the stakeholders most directly concerned, while representing the public interest and avoiding a special interest "hijack" of the SOA.

Communicate the vision

3.73 More systematic efforts should be made in management development activities, and in a range of employee training activities, to promote understanding of the SOA model and its relationships to broader reforms within the Public Service. The Public Service Commission, the Canadian Centre for Management Development and departmental training activities should be

encouraged to incorporate SOA components in their respective curricula, with the responsible "champion" providing focus and leadership to system–wide education efforts.

Open up the set–up process

3.74   To strengthen the set–up process and create more acceptance of the rationale for each SOA, the government should open up the screening and set–up process to stakeholders. This can be done informally, as is beginning to happen. The recent preparation for the Survey and Mapping Services application for SOA status involved considerable consultation with its stakeholders, including interested private sector companies, and is reported to have built up a considerable level of support.

3.75   Broader consultation during the selection and set–up process, followed with a carefully developed communication strategy that includes key stakeholders, might include the following:

- Serious consideration of organizational units for SOA status could be openly acknowledged or advertised by the candidate organizations, their departments and the Treasury Board to allow stakeholders to make known their views on the business case and priorities for the agency.

- At the same time, ways might be explored to see that the interests of the general taxpayer are not overlooked. The appropriate parliamentary committee might be asked to comment on the proposed arrangements and performance priorities, for example. It is not intended that this recommendation extend to requiring formal parliamentary assent to the creation of SOAs, as is required for Crown corporations or organizations given separate enabling legislation.

Involve stakeholders in the agency governance process

3.76   Ministers and deputy ministers do not have time to exercise the kind of informed, supportive and yet demanding governance,

oversight and evaluation of individual agency and agency head performance that is increasingly recognized as critical to long–term success.

3.77   **Advisory boards.** The government should encourage SOAs to follow the example of those who have formed active, effective advisory boards as a vital means of helping deputy ministers discharge their specific responsibilities regarding SOAs and, at the same time, maintaining involvement of key stakeholders.

3.78   While stakeholder groups interested most directly in specific SOAs would be willing to volunteer time to serve on such boards, ways would need to be found to ensure that the broader public interests were not overlooked. As a minimum there would need to be a clear statement of responsibilities, as discussed below, and careful thought about the composition of such bodies. An annual statement of SOA advisory board governance practices would help make transparent how it balanced different stakeholder interests.

3.79   **Parliamentary committees**. Equally important, opportunities and means should be sought to engage Parliament more meaningfully in the oversight of government than the current practices permit. Alternative approaches toward a more constructive and meaningful political governance role, under the umbrella of existing ministerial accountability conventions, might include:

- appearance of agency heads before parliamentary committees, as is done elsewhere;

- cyclical in–depth review of SOA performance, for example, when charters are renewed, or revolving funds limits increased.

Improve Entry and Exit Criteria

3.80   Members of the Steering Group agreed on the need to improve the criteria for determining which government activities should be converted into SOAs, and which SOAs, if any, should be moved into an alternative structure.

3.81   Members of the Steering Group agreed that the first two requirements of the SOA are that

objectives and outputs be clearly identifiable and measurable and that significant ongoing ministerial involvement not be required or expected. A third criterion, already established by Treasury Board Secretariat, is that the activities should operate within a relatively stable policy framework: in other words, there should be a high degree of consensus about the public purpose outcomes to be reached and the kind of outputs that need to be delivered to cause these outcomes to happen.

3.82   Another useful criterion, though perhaps not a prerequisite, would be the ability to so structure the agency that charges for its outputs provided sufficient revenue to cover its costs. Charges may be paid either by the direct users or by those whose public purposes are served by the provision of the outputs.

3.83   This suggests that the SOA is particularly suitable for:

- activities that provide goods or services to the government that are also available from other suppliers;

- activities that are being prepared for privatization;

- activities that operate under a relatively stable policy framework and deliver definable outputs that contribute to an agreed public purpose.

3.84   The SOA is not, in the view of the Steering Group, suited for situations where:

- the public expects, or the minister wishes, significant ongoing ministerial involvement in operational decisions and the use of management discretion;

- the primary activity is developing government policy.

3.85   Members also cautioned against adopting the SOA for specific activities within a department before looking at the overall picture. First, is the public purpose for the activity clear, and still relevant? As one member observed, there is nothing more wasteful than improving an activity

that should not be being done. The set–up process should result in an explicit assessment of the continued policy purpose and relevance of individual entities being considered for SOA status. This assessment should be agreed with the Privy Council Office.

3.86   Second, there are a range of alternative delivery mechanisms that should be considered. The key questions should be:

- what are the performance improvements wanted, in what time frames? and

- which vehicle is most likely to remove or eliminate whatever is constraining current performance?

3.87   And third, consideration should also be given to the host department. What adjustments or accomodations will have to be made in the host deparment to ensure that the SOA connects well to the broader systems?

3.88   **Exit criteria.** Members also agreed on the need for "exit criteria" for the SOA. These would provide a test for determining when "transitional" SOAs are ready to move to the next stage or when the SOA performance agreement appears not to be working.

3.89   As discussed above, transition and experimentation always result in uneven progress and some failures. This should be expected and supported as fundamental to innovation and change. At the same time, ways have to be found to recognize and deal with situations where the expected benefits of the SOA have not been realized, lest the SOA status become downgraded.

Set Clearer, Firmer, Goals and Responsibilities and Monitor Performance

3.90   Members of the Steering Group agreed on the need to set clearer, more concrete performance goals and improvement priorities for SOAs and include them in agency charters with appropriate permanence; establish more clearly the respective responsibilities of SOA heads and deputy ministers

under the umbrella of ministers and match these responsibilities with appropriate authority and discretion; and monitor agency performance with respect to the goals and priorities establised.

Clearer, more concrete and visible performance goals and improvement priorities

3.91 Clearer focus and direction at the individual agency level are key to gaining acceptance – and to the subsequent performance of SOAs. Preliminary observations suggest the need to develop much clearer performance goals, and time frames for realizing them. The performance improvement goals should be as clear, concrete, and challenging as possible, so that they can serve as a basis for future evaluation of agency and agency head performance. Options include:

- more rigorous technical challenge within the bureaucracy;

- greater visibility to see whether the performance criteria make sense to stakeholders.

3.92 The report places rather more emphasis on the latter (see 3.74), on the basis that greater visibility will help ensure that technical homework is well done and will also add a degree of permanence.

3.93 Baseline information about current performance levels may not be available. If not, consideration might be given to a "provisional SOA" status, until the agency is able to determine its current level of performance in respect of its most important responsibilities, as a baseline from which to measure improvement.

Roles and responsibilities

3.94 Views on the relative roles of agency heads and their governing authority (usually deputy minister) and the overarching roles of ministers were sufficiently diverse, if not confused, that an effort to clarify and develop consensus on them is essential to empowerment processes.

3.95 At the same time, agency charters currently have little standing, as reflected in the observation that framework documents provide a "limited, conditional, and unstable" expression of responsibilities, contributing to persistent ambiguity and impermanence.

3.96 Further, there are indications that the set–up process is fixed unduly on negotiating exemptions from central agency and departmental functional groups.

3.97 Accordingly, the following measures could clarify roles and responsibilities and serve to make the delegation of authorities less conditional, short of expressing them in legislation. While a legislated division of responsibilities would add greatest permanence, members of the Steering Group concluded that it would be premature and impractical to pursue it at this time for the SOA alone. Treasury Board can nevertheless influence individual relationships and it can regulate them all by reflecting its view of responsibilities in a policy statement.

3.98 **Articulate governance, management and general public service responsibilities.** Moving toward a more results–based governance and accountability regime, from the traditional regime based largely on control over resource inputs and processes, would be facilitated through reaching a level of consensus on the relative responsibilities of the key levels in the governance–management relationship.

3.99 A fresh articulation of those responsibilities and the practical expectations as to their fulfilment could lead to improved differentiation between governance and management roles. The process of achieving consensus may be as important as the instrument chosen to articulate it.

3.100 But first, there has to be a common view of what the responsibilities are, and how they divide between agency heads and deputy ministers. As discussed above, the study team worked with managers and deputies to understand better how they saw their respective responsibilities. The results (reproduced as Exhibit

2.96), or some other model, could serve as a starting point for developing consensus, whether for individual agencies or overall.

3.101   Guidelines for functional responsibilities. It might also be advisable for Treasury Board to consider issuing guidelines for the conduct of functional responsibility in departments and agencies. Both the SOA initiative – and the system–wide changes encompassed in the Public Service 2000 renewal initiative – depend on functional groups finding new ways to work with line managers: regulating, without controlling. A step toward this would be articulation of the irreducible core of acceptable behaviours and practices for SOAs.

3.102   Package the exemptions – reorient central agency and departmental roles. To reduce the effort and costs related to the determination of exemptions and delegations, and to make it easier to see what makes sense, Treasury Board Secretariat could establish model "flexibilities" in the same way that corporate legislation and standard articles of association are used for private sector corporations.

**3.103   **Establishing such a standard package, or constitution, will also provide the opportunity to give better definition to the boundaries of agency discretion. Rather than being a record of what exemptions have been negotiated, the framework documents would provide a map to the boundaries of managerial discretion, describing those transactions that are prohibited, and those where prior approval of Treasury Board or the department is required.

**3.104   **Key "flexibilities" concerning separate employer status, revolving fund and optionality should continue to be reserved for authorization by Treasury Board. And departments could still justify further restrictions than Treasury Board Secretariat presents in its starting packages. But the onus of restriction should be shifted from the SOA to the functional groups.

**3.105   **Beyond those, the standard package of exemptions and its tailoring to fit unique operational responsibilities should be authorized at the departmental level. Except for the authorization of those key exemptions, the nature of Treasury Board involvement could be changed in favour of increased departmental determination of the extent and pace of SOA implementation, with the Treasury Board Secretariat's focus shifting to oversight of departmental implementation and system–wide policy issued.

3.106   Stabilize the leadership. With the degree of cultural change typically involved in SOA start–ups, continuity of leadership is essential. SOA arrangements should not be approved without a clear understanding among the agency head, the deputy minister and the Public Service Commission about the period of appointment, subject to satisfactory performance. The length of term should be related to the business plan timetable, and should be reflected in the letter of offer.

**3.107   **The members of the Steering Group do not consider that more fundamental changes to the appointment process are warranted at this time.

Using the SOA process

**3.108   **Delegation, proactive governance and monitoring of the achievement of results of the SOA model would be greatly enhanced with more attention to the use of business plans and annual reports.

**3.109   **Treasury Board can influence the seriousness with which the SOA is viewed, by the seriousness it attaches to its outputs and processes. This would suggest the need for current policy and resource allocation processes to be modified to incorporate or otherwise accommodate charter–business plan–annual report innovations. These innovations are competing (unsuccessfully) with the dominant Multi–Year Operational Planning process and Main Estimates Submission processes. Finding a better way to accommodate SOA processes and outputs within the overall resource allocation process of government, and using them within it, will help ensure better focus and maintain SOA visibility.

Establish a Framework for Public Reporting

3.110   Members of the Steering Group agreed on the need to establish a framework for public reporting, using existing departmental accountability reports (Part IIIs of the Estimates) with appropriate safeguards to deal with confidentiality.

3.111   Recent developments, in other jurisdictions and in the private sector, indicate growing agreement about the importance of actively sharing information with both internal and external stakeholders. This is seen as a fundamental condition for empowering employees, for example, and engaging both clients and other stakeholders in the search for innovations aimed at improving service and reducing cost. Recent government–wide initiatives, like the service standards policy, require that all units of government publish their standards at each service location, and report their level of service against the standard. Many of the SOAs have increased the information flow to their employees, recognizing that they need information to exercise better judgment.

3.112   As well, attention needs to be given to public reporting. When the government sets the reporting framework, it sends a very clear signal. It establishes which responsibilities are important enough to require information about – and which are not. Those that require comment may well be taken more seriously than those that do not; hence the importance of frameworks such as those that the government and its agents establish for businesslike organizations in the private and mixed sectors of the economy.

3.113   Members of the Steering Group did not favour more glossy formal reports, especially in an era of restraint. Rather, they emphasized using existing mechanisms as much as possible to incorporate businesslike practices, and using published information to provide a connection to supporting information available on demand.

Set out information needs early – in the course of charter development and approval

3.114   Further to the suggestion that performance improvement objectives and their related time frames be set out and made visible when the charter and initial business plan are approved, that is also the optimal time to agree on the information needs for departmental and central agency requirements, and how they may be satisfied. At the same time, information preferences of responsible ministers and the pertinent parliamentary committee(s) should be sought.

Supplement and correlate with existing departmental reports (The Estimates Part III)

3.115   Annual reports of SOAs provide a continuing, annual opportunity for agency management to report formally on performance to deputy ministers. Consideration should also be given to making SOA annual reports available to the public, with appropriate safeguards about the release of sensitive information, consistent with private sector practices. Consideration should also be given to setting up a central registry of annual reports that would ensure that SOA annual reports are produced and accessible to all.

3.116   To fit SOA accounting and reporting better into existing processes, Treasury Board Secretariat could review the current guide to the Part IIIs and Public Accounts. This review would address the connection between the cash–based accounting system of government and the businesslike accounting of SOAs and, in particular, might:

- set out more clearly the extent to which Main Estimates and Part IIIs should repeat or condense information in SOA reports and financial statements, or cross–reference them and state where they can be obtained;

- set out the accounting conventions that apply to SOAs and how far they depart from normal businesslike accounting conventions;

- establish framework requirements for management discussion and analysis of

published financial statements. Providing a framework for such discussion and analysis would send a clear signal of the responsibilities Treasury Board considers important;

- establish a framework for the audit requirements for SOAs.

Develop Clear Guidelines for Competition

3.117 Members of the Steering Group agreed that the government should develop and adhere to clear guidlines for SOAs that compete to supply government departments, and that compete for markets in the private sector.

3.118 The government is currently re–examining the common services policy and the issue of competition with the private sector. Out of that review should come clear ground rules for acceptable business practices and rules of engagement for public enterprises engaged in commercial activities that involve direct or indirect competition with the private sector.

3.119 In addition to developing guidelines, attention should be given to how the government will demonstrate adherence to them. Active, supportive and demanding oversight is a first–line mechanism for doing so. Management reports on how it applies guidelines, coupled with advisory board or audit confirmation, offer another route for making public what is being done. The auditors of Crown corporations, for example, are required to state whether the transactions that come to their notice are in accordance with specific authorities.

Establish Responsibility and Framework for Ongoing Evaluation

3.120 Members of the Steering Group agreed on the need for government to provide for subsequent stocktaking of the SOA initiative to assess progress and make appropriate adjustments as may be required.

3.121 At the same time as it establishes its policy on the SOA, the government should fix the responsibility, framework and timetable for ongoing monitoring and future evaluation of the initiative.

Appendix 1

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario K1A 0G6

21 January 1993

Mr. Ian D. Clark
Secretary of Treasury Board
9th Floor, East Tower
L'Esplanade Laurier
140 O'Connor Street
Ottawa, Ontario K1A 0R5

Dear Mr. Clark:

In December, 1992, the government entered the fourth year of its Special Operating Agency (SOA) initiative. I believe that it is timely for my Office to review this initiative and inform Parliament in an appropriate manner.

I have asked Assistant Auditor General Ron Thompson and Principal Michael Weir to try to develop a study of the SOA initiative as a joint learning experience with management. I have challenged Ron and Michael to be as constructive and collaborative as they can, while respecting the independence of my Office and taking into account the level of interest and possible involvement of government officials who are involved in the initiative.

We believe that our approach to reviewing SOAs at this time should be guided by the following four general considerations.

(1) SOAs are still relatively new and some may be experiencing "growing pains"; beginnings of new initiatives are delicate times for all involved. Our study should be sensitive to these matters.

(2) The study should help us develop approached for future audits of SOAs that will reflect appropriately the spirit of autonomy, accountability and empowerment that underlies the SOA initiative specifically and PS2000 generally.

(3) The study should discharge our responsibility to inform Parliament about an important new government initiative, while adding value for government stakeholders at all levels.

(4) Government managers at the central agency, host department and SOA levels will share interest in the results of any project: they are responsible for the issues involved and any action that might be appropriate.

Michael Weir has been encouraged of the feedback that he received during an exploratory discussion with Mr. Cooke of your Office. We would like to explore the idea of the study with other appropriate officials over the next two weeks, I would be grateful for anything that you could do to facilitate these meetings. If you have concerns or reservations about the study, or if you wish a personal briefing, please let me know. I look forward to hearing from you.

Yours sincerely,

L. Denis Desautels, FCA

Secretary
of the Treasury Board

Secrétaire
du Conseil du Trésor

Ottawa, Canada
K1A 0R5

L. Denis Desautels
Auditor General of Canada
240 Sparks Street
Ottawa, Ontario K1A 0G6

Dear Mr. Desautels:

Thank you for your letter on the prospective joint study of the government's implementation of the Special Operation Agency (SOA) concept. I look forward to the prospect of a cooperative and collaborative approach to assessing the SOA initiative.

Since the first SOAs were only approved by Treasury Board in May, 1990, I am sure you can appreciate that the development of the concept is still in its infancy and that some SOAs are experiencing "growing pains". Nevertheless, it is timely to proceed with a study of the type you suggest with an emphasis on being sensitive and collaborative. Such a study might well prove to be a model of constructive examination worthy of wider application by your office in the future.

I understand that Mel Cappe and Treasury Board Secretariat Officials have already met with Ron Thompson and Michael Weir and that they have agreed to proceed in a collaborative and cooperative manner. I look forward to being briefed as the details of the study are developed further.

Please find enclosed, for the use of your French-speaking officials, the French version of this letter.

Yours sincerely,

I.D. Clark

Appendix 2

PROFILE OF SPECIAL OPERATING AGENCIES (SOA) IN THE CANADIAN GOVERNMENT

SOA	Host Department \ Reporting Authority	Date Announced and Approved	FTEs	Separate Employer Status	Revenues ($ millions)	Expenditures ($ millions)	Funding Mechanism	Public Purpose (Mission)	Paying Customers
THE FIRST FIVE SOAs									
Canada Communication Group[1]	Public Works and Government Services Canada Deputy Minister	December 1989 June 1990	1,476	✓	401.1	394.6	Revolving Fund (Authority of $100 million)	Provide efficient and effective communications services...	99% federal government departments
Consulting and Audit Canada[1]	Public Works and Government Services Canada Deputy Minister	December 1989 April 1990	420		61.9	66.9	Revolving Fund (Authority of $30 million)	Contribute to the improvement of public sector operations and management by providing a range of consulting, auditing ...efficient and effective manner.	90% federal government departments 10% other governments
Government Telecommunications Agency[1]	Department of Communications Assistant Deputy Minister	December 1989 November 1990	250		205.3	204.6	Revolving Fund (Authority of $64 million)	...is to provide high quality services to its clients in an efficient and effective manner...	100% federal government departments
Passport Office[1]	Foreign Affairs & International Trade Canada Assistant Deputy Minister	December 1989 April 1990	550		44.1	38.0	Revolving Fund (Authority of $4 million)	...produce passports at the lowest possible cost and the maximum level of service.	public
Training & Development Canada[1]	Public Service Commission Executive Director	December 1989 April 1990	147		15.6	15.0	Revolving Fund (Authority of $4.5 million)	...centre of excellence in the provision of quality staff training and development services.	82% federal government departments 18% Central agent
THE NEXT TEN									
CORCAN[1]	Solicitor General Commissioner of Corrections Canada	February 1991 February 1992	363		48.8	47.0	Revolving Fund (Authority of $45 million)	...contribute to achievement of CSC mission. ...to assist offenders to fill their work-related needs in preparation for successful re-entry...into Canadian society.	56% federal govt departments and Crown Corp 7% provincial government, not for profit 37% subsidy from Home Depart.
Canadian Intellectual Property Office[2]	Industry Canada Deputy Minister	February 1991 May 1992	450		40	40	Revolving Fund	...to contribute to Canada's economic development by... administering intellectual property systems in Canada...encouraging invention...promoting Canada's international intellectual property interests.	public
Canadian Heritage Information Network[2]	Canadian Heritage Assistant Deputy Minister	February 1991 July 1992	34		1.7[3]	N/A		...create opportunity for ...museums ...to record, manage, access and... information relative to Canadian heritage.	public sector and museums

Appendix 2

PROFILE OF SPECIAL OPERATING AGENCIES (SOA) IN THE CANADIAN GOVERNMENT

SOA	Host Department \ Reporting Authority	Date Announced and Approved	FTEs $	Separate Employer Status	Revenues ($ millions)	Expenditures ($ millions)	Funding Mechanism	Public Purpose (Mission)	Paying Customers
Canadian Conservation Institute[2]	Canadian Heritage Assistant Deputy Minister	February 1991 November 1992	78		N/A	6.3	Appropriation	...has a mandate to prolong the life of Canada's heritage collections...	public sector and museums
Canadian Grain Commission[2]	Agriculture and Agri-food Deputy Minister	February 1991 July 1992	800		53.8	52.6	Appropriation	...to establish and maintain standards of quality for Canadian grain...	grain producers and marketers
Canadian General Standards Board[2]	Public Works and Government Services Canada Assistant Deputy Minister	February 1991 September 1992	57		1.9	4.2	Appropriation	"to be Canada's leader in standardization"	60% federal government 40% private sector
Canadian Pari-mutuel Agency[1]	Agriculture and Agri-food Canada Assistant Deputy Minister	February 1991 November 1992	78		14.9	15.3	Revolving Fund (Authority of $2 million)	...to protect the wagering public against fraudulent practices...ensuring the integrity of pari-mutuel betting...	Racetracks
Indian Oil and Gas Canada[2]	Indian and Northern Affairs Canada Assistant Deputy Minister	February 1991 April 1993	67	✓	50.5	5.6	Appropriation	to honourably fulfill the Crown's obligations and to further First Nations initiatives to manage and control their oil and gas resources.	native bands
Physical Resources Bureau[2]	Foreign Affairs & International Trade Canada Assistant Deputy Minister	— July 1993	124		12	70	Appropriations	...support Canadian international objectives and programs...provision of office and staff accommodations...	96% federal govt departments and agencies operating abroad
Transport Canada Training Institute[2]	Transport Canada Assistant Deputy Minister	February 1991 July 1993	275		N/A	21.5		to contribute to a safe, effective and efficient transportation system...training and development programs...	90% Transport Canada
PENDING APPLICATIONS									
Surveys, Mapping, and Remote Sensing[2]	Natural Resources Canada	April 1993 Pending	914		8.9	97.1	Revolving Fund and Appropriation		
Translation Services[2]	Public Works and Government Services Canada	April 1993 Pending	1,213		N/A	107.4			

1   Financial data from 1992/93 Public Accounts Volume II, Part II

2   Financial data provided by Consulting and Audit Canada, SOA Services (from 1993/94 Estimates, Annual reports)

3   Between the Canadian Conservation Institute and the Canadian Heritage Information Network.

$ Full-Time Equivalent (FTE) is a measure of human resource consumption based on average levels of employment. FTE factors out the length of time that an employee works during each week by calculating the rate of assigned hours of work over scheduled hours of work. Provided by Consulting and Audit Canada, SOA Services.

Sources: 1993/94 Estimates, Public Accounts, Charter Documents, Business Plans, Annual Reports.

Appendix 3: Contributors to the Study

Many people helped develop and added value to the report. Their contributions have been greatly appreciated.

INTERVIEW PROGRAM

The Study obtained broad information about the SOA initiative through a program of interviews and representations and presentations made. **Thanks for taking time to express or present views, share experience or information, or help in setting up the project are due to:**

F. Almeda	Transition Team, Public Works and Government Services Canada	I. Kulik	Assistant Commissioner – Correctional Service Canada
E. Baker	Former Agency Head – Consulting and Audit Canada	G. Lambert	Assistant Deputy Minister – Corporate Management, External Affairs and International Trade Canada
G. Bethell	Former Agency Head – Training and Development Canada	M. Leesti	Agency Head – Canadian Intellectual Property Office
M. Binder	Senior Assistant Deputy Minister – Communications Canada (former ADM responsible for Government Telecommunications Agency)	A. Lepage	Director General – Finance, Correctional Service Canada
		R. MacPhee	Agency Head – Passport Office
B. Cherniawsky	Senior Advisor, Planning and Liaison – Indian Oil and Gas Canada	J. McEawen	Public Service Alliance of Canada
		B. McIntosh	The Professional Institute of Public Services of Canada
E. Cleghorn	Agency Head – Canadian Pari–Mutuel Agency	N. Manchevsky	Agency Head – Canada Communication Group
G. Clouthier	Director General, Translation Operations, Secretary of State	B. Marsen	Special Advisor on Public Service Renewal
E. Cooke	Director – Management Initiatives Division, Treasury Board	B. Mawhinney	Assistant Deputy Minister – External Affairs and International Trade Canada
O. Davey	Director – Federal Law Enforcement Under Review, Public Security Canada	J. Mitchell	Assistant Secretary to the Cabinet, Machinery of Government, Privy Council Office
B. Dawson	Manager – Management Initiatives Division, Treasury Board	D. Monet	Assistant Deputy Minister – Industry and Science Canada
W. Douglas	Agency Head – Indian Oil And Gas Canada		
J. Edwards	Commissioner – Correctional Service (Former Head of Public Service 2000)	N. Mulder	Deputy Minister – Transport Canada
		G. Myers	Business Manager – International Brotherhood of Electrical Workers
J–G Fleury	Deputy Secretary – Personnel Policy Branch, Treasury Board	R. Neville	Assistant Deputy Minister – Finance and Administration, Public Works and Government Services Canada
R. Giroux	Former Chairman – Public Service Commission		
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LABORATORY GROUP PROFILES

The study obtained a deeper understanding about the SOA initiative and the process of becoming an SOA through profiles prepared by the six laboratory group agencies.
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LITERATURE REVIEW

The joint project team obtained information about administrative reform efforts in other jurisdictions and in the private sector by reviewing published materials.
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